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GOLCONDA CORPORATION
ANNUAL REPORT 1975

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Directors

- R. M. Dunn, Director and Chairman Executive Committee of Ozark Airlines, Inc.; Chairman of the Board, Ken-A-Vision Manufacturing Co. (Manufacturing), Kansas City, Missouri
- W. Featherstone, Vice President, Golconda Corporation; President, Golconda Mining Corporation (subsidiary), Wallace, Idaho
- D. A. Gardiner, President, Cerro Metal Products, Division of Cerro-Marmon Corporation, Bellefonte, Pennsylvania
- R. C. Gluth, Vice President, Golconda Corporation; Vice President, GL Corporation (Investments); Vice President, Cerro-Marmon Corporation (Diversified Manufacturing); Vice President, The Marmon Group, Inc. (Michigan) (Diversified Manufacturing), Chicago, Illinois
- G. A. Jones, Vice President, Cerro-Marmon Corporation (Diversified Manufacturing); Executive Vice President, The Marmon Group, Inc. (Michigan) (Diversified Manufacturing), Chicago, Illinois
- H. F. Magnuson, Certified Public Accountant, Wallace, Idaho
- J. R. Morrill, President, Golconda Corporation
- R. A. Pritzker, President, GL Corporation (Investments); President, Cerro-Marmon Corporation (Diversified Manufacturing); President, The Marmon Group, Inc. (Michigan) (Diversified Manufacturing); Chairman, Hammond Corporation (Musical Instruments and Specialty Apparel Manufacturing), Chicago, Illinois
- G. P. Smith, Chairman of the Board, Golconda Corporation

Transfer Agent

American National Bank & Trust Co.
Chicago, Illinois

Registrar

American National Bank & Trust Co.
Chicago, Illinois

Auditors

Price Waterhouse & Co.
Chicago, Illinois

1976 Annual Meeting

Golconda's 1976 annual meeting of stockholders will be at 9:00 A.M. on Friday, June 18, 1976 at the offices of the RegO Division, 4201 W. Peterson Avenue, Chicago, Illinois 60646.

LS 000504



GOLCONDA CORPORATION

39 SO. LA SALLE STREET · CHICAGO, IL. 60603 · 312/372-3090 · 312/372-3148

TO OUR SHAREHOLDERS:

1975 can best be characterized as a year of consolidation and restructuring for Golconda Corporation. As you will see in the accompanying 10-K report, it was obviously a year which required us to make difficult business decisions and incur substantial one-time losses aimed at channeling our resources into those activities which hold the greatest promise for the future. Building upon the two operations offering the greatest profit potential, the RegO and the Anderson Copper & Brass Divisions, we believe the actions taken in 1975 will help mark 1976 as the year of Golconda's re-emergence in selected markets.

Financial Results

The Company's continuing manufacturing operations lost \$2.8 million on sales of \$21.5 million in 1975, compared with a \$500,000 profit on sales of \$31.1 million the previous year. Discontinued manufacturing operations lost \$735,000 in 1975, compared with a \$1.9 million loss a year earlier. An investment loss and an additional income tax provision of \$1.5 million resulted in a net loss of \$5.3 million, or \$2.05 per share, compared with net income of \$5.6 million, or \$1.66 per share (\$1.52 fully diluted), in 1974. However, it is significant that \$4.5 million of Golconda's \$5 million net loss in 1975 can be attributed to non-recurring losses.

Furthermore, 1974 results are not truly representative because the \$5.6 million net income reported for that year included \$7 million investment income from the sale of Hecla Mining stock which had been purchased between 1957 and 1964.

Outlook

While the economy is generally emerging from a real depression, there is no certainty that 1976 will be a very good year for either the propane industry--which remains particularly clouded with uncertainty--or for Golconda. However, there has been a general improvement in both the systems and the attitudes within the Company, and this can only result in Golconda's re-emergence within its industry.

Based upon current information, it appears the Company will be at approximately a break-even or nominally profitable position for the first quarter 1976.

John R. Morrill
President and Chief Executive Officer

April 16, 1976

LS 000505

IMPORTANT NOTICE

Effective immediately, the Company, by itself and through its appointed broker dealer, The Illinois Company/McCormick, Inc., will be purchasing its debentures, its preferred stock and its common stock, both by purchases in the open market and by purchases direct from the security holders of the above three securities. Purchases of the debentures and the preferred stock will be made at current market prices as they exist from time to time. Purchases of the common stock will be made in accordance with volume and price guidelines contained in proposed Rule 13e-2 under the Securities Exchange Act of 1934. This purchase program will extend for an indefinite period of time. The Company will use its own funds to make these purchases and will attempt to make the purchases which will have the greatest return for the Company. The program may be suspended at any time or from time to time as to one or more of the three securities involved if the Company is unable to purchase the securities at prices which will yield an adequate return to the Company or if the management of the Company determines that funds available can be more profitably employed. In connection with the purchases of the securities, you should be advised: the purchase of the securities will reduce the number of securities that might otherwise trade publicly which could adversely affect the liquidity and market value of the remaining shares held by the public; such purchases may cause the delisting of the preferred stock on the Pacific Stock Exchange and/or the common stock on the Pacific Stock Exchange, the Spokane Stock Exchange and/or the Intermountain Stock Exchange; and could result in such a reduction of the number of security holders of the Company that periodic filings would not be required to be made with the Securities and Exchange Commission in Washington, D.C.

CAPITAL STOCK

Golconda's common shares are traded on the Pacific, Spokane, and Intermountain Stock Exchanges (symbol:GOL), and its preferred stock is traded on the Pacific Stock Exchange (symbol:GOL.PR). Cerro Corporation, which was reincorporated as Cerro-Marmon Corporation in February, 1976, owns 86.6 per cent of Golconda's common shares and 73.5 per cent of the preferred shares.

The following table presents the quarterly high and low prices of the Golconda common and preferred stock for the past two years as reported by the Pacific Stock Exchange:

	<u>Common</u>		<u>Preferred</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1974				
First Quarter	8-7/8	4	16	11-3/8
Second Quarter	8-5/8	7	16-5/8	12-3/4
Third Quarter	8	4	12-3/4	10
Fourth Quarter	4-1/8	3-1/8	10	9-1/2
1975				
First Quarter	4-1/8	3	10-1/4	9-3/4
Second Quarter	4-3/4	3-1/8	10-1/2	10
Third Quarter	4-1/8	3	10	8-7/8
Fourth Quarter	3-1/2	3	10	9-1/4

No dividends have been paid on common stock in the past two years. A dividend of \$.25 per share has been paid each quarter on the \$1.00 Cumulative Convertible Preferred Stock.

LS 000506

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Year Ended December 31, 1975

Commission File No. 1-848

GOLCONDA CORPORATION

(Exact name of registrant as specified in its charter)

Idaho
(State or other jurisdiction of
incorporation or organization)

82-0122540
(I.R.S. Employer
Identification No.)

39 South LaSalle Street, Chicago, Illinois
(Address of principal executive offices)

60603
(Zip Code)

Registrant's telephone number, including area code (312) 372-3090

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
\$1.00 Cumulative Convertible Preferred Stock	Pacific Stock Exchange
Common Stock	Pacific Stock Exchange Spokane Stock Exchange Intermountain Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
7% Convertible Subordinated Debentures Due January 1, 1990

Indicate by check mark whether the registrant (1) has filed all annual, quarterly and other reports required to be filed with the Commission, (2) has been subject to the filing requirements for at least the past ninety (90) days. Yes ☒. No ☐.

LS 000507

ITEM 1 BUSINESS

Golconda Corporation operates in one principal area of interest - controls and related equipment. In 1975 the Company decided to terminate its participation and dispose of its investments in mining companies.

In February, 1975 the Company sold its division which was engaged in the design, manufacture and marketing of modular and custom kitchen, cafeteria and restaurant equipment.

In April, 1975 the Company sold the contracts business of a division which was engaged in the engineering and manufacturing of precision components and assemblies for use in aerospace vehicles, military and commercial aircraft and computers.

In May, 1975 the Company discontinued operations of its division which was engaged in recycling brass scrap from the other manufacturing divisions into machining rod and forgings.

Through its RegO Division, the Company designs, develops, manufactures and markets: (a) pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; (b) pressure regulators, cylinder valves, manifolds and other control equipment for atmospheric and other compressed, liquefied and dissolved gases; (c) gas welding and cutting equipment; (d) medical oxygen and chemical equipment; (e) pneumatic control devices for the fluid power industry; and (f) cylinder valves and regulators for self-contained breathing apparatus. A common characteristic of RegO Division products is the control or regulation of the flow of gases either into or out of containers in which the gases are stored, or into piping systems. RegO products are designed for a wide variety of gases and temperature and pressure extremes. Products for use with cryogenic gases are required to withstand temperatures as low as minus 320° F. Depending on the application, RegO equipment is designed to regulate pressure from a few ounces to 10,000 pounds per square inch.

RegO Division products are sold nation-wide and, to a limited extent, abroad. These sales are made by a combination of seventeen fulltime RegO salesmen and six hundred and fifty-one distributors located primarily in the United States and some abroad. RegO also distributes through LP-gas marketers and anhydrous ammonia dealers throughout the country. In 1975, the largest customer of this division accounted for 7% of its sales and its five largest customers accounted for about 21% of its sales.

Through its Anderson Copper and Brass Division (Anderson), the Company manufactures and markets a line of fittings for use with copper tubing. Included in the product line are flared fittings, compression fittings, inverted flare, double compression and brass pipe fittings, as well as garden hose and air hose fittings. A catalog of standard items is issued, but orders are solicited for special items of a related nature. Designed for use with a variety of gases and liquids, the primary application is in the plumbing industry.

The Anderson Division manufacturing operations, located in Alsip, Illinois, consist primarily of screw machine and chucking machine operations, the raw material being exclusively brass rod and brass forgings. The division purchases other components, such as valves and tubing tools, and offers them for sale to its customers also.

Brass fittings manufactured by the Anderson Division are sold on a nation-wide basis by thirty manufacturer's agents who service approximately eleven hundred accounts. A limited amount of sales are abroad. In 1975, the largest customer of the division accounted for 6% of its sales and its five largest customers accounted for about 17% of its sales.

LS 000508

Competition

Golconda Corporation is subject to intense competition from a large number of firms. Competition varies from older and larger firms having greater financial resources than Golconda to small local and regional competitors which have advantages deriving from proximity to local markets. RegO Division's principal market is the LP-gas industry, and RegO is a significant supplier of LP-gas equipment.

Backlog

As of December 31, 1975 the Company's backlog of orders totalled \$3,323,000, all of which are expected to be filled in 1976. At December 31, 1974 backlog amounted to \$9,570,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

The business is directly affected by general business conditions, especially those involving the petroleum and construction industries.

Materials

Raw materials and components used by the Company in its manufacturing operations are available from more than one supplier, although it may obtain certain parts and materials from a single source and supplier.

Research and Development

The dollar amount of expenditures during the last two fiscal years relating to the development of new products or the improvement of existing products was not material.

Number of Employees

The Company has approximately 550 fulltime employees, of which 195 are in executive, managerial, professional, office and clerical positions and the remaining balance of 355 consists of factory, warehouse and other production related personnel.

Environmental Matters

The Company is subject to environmental regulation by federal, state and local authorities. There are no known material expenditures required of the Company for pollution control equipment under applicable environmental laws.

Line of Business Information

Golconda's continuing manufacturing operations are, and have been for the last five years, engaged in only one line of business -- the production and sale of controls and related equipment.

LS 000509

ITEM 2 GOLCONDA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS, RETAINED EARNINGS AND ADDITIONAL CONTRIBUTED CAPITAL

The following consolidated statements of operations, retained earnings and additional contributed capital for the years ended December 31, 1974 and 1975 have been examined by independent accountants whose report is included elsewhere herein. In the opinion of management, the consolidated statements of operations, retained earnings and additional contributed capital for the three years ended November 30, 1973 include all adjustments (consisting of normal recurring accruals) necessary to a fair presentation of such statements.

CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands except per share data)

	Fiscal Year Ended				
	November 30,			December 31,	
	1971	1972	1973	1974(A)	1975
	(Not covered by auditors' report)				
Net sales from manufacturing operations (B)	\$21,890	\$26,838	\$33,011	\$31,059	\$21,481
Cost of goods sold	15,464	19,376	23,540	24,078	19,308
Gross profit from manufacturing operations	6,426	7,462	9,471	6,981	2,173
Selling, general and administrative expenses	4,326	4,349	5,643	6,136	4,808
Interest expense	1,037	930	795	1,162	715
Interest income	(121)	(74)	(50)	(834)	(492)
Other(income) expense-net (C)	(444)	(478)	(373)	(99)	1,664
	4,798	4,727	6,015	6,365	6,695
Earnings (loss) from continuing operations before income taxes					
Manufacturing	1,628	2,735	3,456	616	(4,522)
Investments (2)	458	483	1,668	10,266	(434)
	2,086	3,218	5,124	10,882	(4,956)
Income tax provision (benefit) (D)					
Current	644	1,077	1,466	1,643	2,694
Deferred	152	316	505	1,763	(3,070)
	796	1,393	1,971	3,406	(376)
Earnings(loss) from continuing operations	1,290	1,825	3,153	7,476	(4,580)
Discontinued operations(B)					
Earnings(loss) from discontinued operations	(347)	(119)	48	275	-
Losses on sales of Divisions					
Applicable to net assets sold	-	-	-	(950)	(735)
Applicable to goodwill written off	-	-	-	(1,240)	-
	(347)	(119)	48	(1,915)	(735)
Earnings (loss) before extraordinary items	943	1,706	3,201	5,561	(5,315)
Extraordinary items (net of Federal income taxes) (E)	(52)	-	-	-	-
Net Income (Loss)	\$ 891	\$ 1,706	\$ 3,201	\$ 5,561	\$(5,315)
Weighted average shares outstanding (F)					
Common	2,785	2,785	2,785	2,785	2,785
Common and Common Equivalent			3,365	3,360	

(continued)

LS 000510

	Fiscal Year Ended				
	November 30,			December 31	
	1971	1972	1973	1974(A)	1975
	(Not covered by auditors' report)				
Primary Earnings(Loss) Per Share					
From Continuing Operations					
Manufacturing	\$.33	\$.53	\$.59	\$.14	\$(1.00)
Investment	.13	.12	.35	2.09	(.65)
	.46	.65	.94	2.23	(1.65)
Discontinued Operations	(.12)	(.04)	.01	(.57)	(.26)
	.34	.61	.95	1.66	(1.91)
Less: Preferred dividend requirement	.15	.14	-	-	.14
Earnings (loss) before extraordinary items	.19	.47	.95	1.66	\$(2.05)
Extraordinary items	(.02)	-	-	-	-
Net Income (Loss)	<u>\$.17</u>	<u>\$.47</u>	<u>\$.95</u>	<u>\$1.66</u>	<u>\$(2.05)</u>
Fully Diluted Earnings (Loss)	<u>\$.17</u>	<u>\$.47</u>	<u>\$.89</u>	<u>\$1.52</u>	<u>\$(2.05)</u>
Dividend per common share	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

LS 000511

LS 000512

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	FISCAL YEAR ENDED			
	November 30, 1971	November 30, 1972	1973	December 31, 1974 (A) 1975
	(Not covered by auditors' report)			
Balance - beginning of period	\$14,053,000	\$14,531,000	\$15,838,000	\$18,654,000 \$24,111,000
Net earnings (loss) for the period	891,000	1,706,000	3,201,000	5,561,000 (5,315,000)
Net earnings for December, 1973 (Note A)	-	-	-	279,000 -
Cash dividends paid - Preferred	14,944,000	16,237,000	19,039,000	24,494,000 18,796,000
	(413,000)	(399,000)	(385,000)	(383,000) (383,000)
Balance - end of period	<u>\$14,531,000</u>	<u>\$15,838,000</u>	<u>\$18,654,000</u>	<u>\$24,111,000</u> <u>\$18,413,000</u>

The accompanying notes are an integral part of this statement.

(3) The consolidated statement of operations has been restated to present the operating results of the PAI contracts business as a discontinued operation (restatement for B-B was made in 1974). The following table shows the impact of the restatement on previously reported net sales (in thousands):

	Fiscal Year Ended			
	November 30,		December 31,	
	1971	1972	1973	1974
Net sales as previously reported in 1974	\$24,837	\$29,554	\$36,196	\$34,800
Less: Discontinued PAI contracts business	<u>2,947</u>	<u>2,716</u>	<u>3,185</u>	<u>3,741</u>
Net sales per consolidated statement of operations	<u>\$21,890</u>	<u>\$26,838</u>	<u>\$33,011</u>	<u>\$31,059</u>

Following is an analysis of the earnings (losses) of discontinued businesses and related losses on disposal (in thousands):

	Fiscal Year Ended			
	November 30,		December 31,	
	1971	1972	1973	1975
Discontinued Operations				
Earnings (loss) from discontinued operations				
B-B	\$(405)	\$(13)	\$166	\$ 507
Income taxes(benefit)	<u>(166)</u>	<u>(6)</u>	<u>69</u>	<u>259</u>
	<u>(239)</u>	<u>(7)</u>	<u>97</u>	<u>248</u>
PAI contracts business	(216)	(223)	(99)	54
Income taxes(benefit)	<u>(108)</u>	<u>(111)</u>	<u>(50)</u>	<u>27</u>
	<u>(108)</u>	<u>(112)</u>	<u>(49)</u>	<u>27</u>
	(347)	(119)	48	275
(Losses) on sales of divisions				
Applicable to net assets of B-B(less applicable income tax benefits of \$950 in 1974 and \$146 in 1975)			(950)	\$(216)
Applicable to net assets of PAI contracts business (less tax benefit of \$487)				(519)
Applicable to goodwill written off (no tax benefit)			(1,240)	
	<u>\$(347)</u>	<u>\$(119)</u>	<u>\$ 48</u>	<u>\$(1,915)</u>
				<u>\$(735)</u>

In determining earnings (loss) from the discontinued B-B operations, B-B was charged with a portion of corporate administrative expenses which are ratable to B-B and which are not expected to recur and with interest expense which would have been eliminated and/or earned through the use of the proceeds of the sale.

LS 000513

In determining earnings (loss) from the discontinued PAI contracts business, PAI contracts business was charged with interest expense which would have been earned through the use of the proceeds of the sale. Corporate administrative expenses are not allocated because such expenses are not expected to be eliminated.

(C) OTHER TERMINATIONS OF OPERATIONS

(1) On May 30, 1975 Golconda ceased operations at its Golconda Metals Division (GMD) plant in Alsip, Illinois. A \$1,178,000 provision for losses incurred and expected to be incurred in connection with the shutdown of this facility is reflected in the accounts as continuing operations in accordance with the provisions of Accounting Principles Board Opinion No. 30. The \$1,178,000 is included in Other Income and Expense in the Consolidated Statement of Operations. Actual losses incurred as of December 31, 1975 in disposing of the assets aggregate \$584,000. The remaining property, plant and equipment to be disposed of at December 31, 1975 total \$655,000 (net of a \$594,000 reserve for loss), and are shown as Assets of Businesses Held for Sale in the Consolidated Balance Sheet.

The original estimate of loss reported in the second quarter was \$1,028,000. Actual results in disposing of the assets to date have required adjustments to the original estimates.

(2) During the third and fourth quarters of 1975, management decided to terminate the Company's participation in the various foreign joint ventures for manufacturing and distributing liquified petroleum gas products. The \$729,000 loss resulting from the recognition of liabilities related to the terminations and from the write-downs of the Company's advances to and investments in these ventures is reflected in the accounts as continuing operations in accordance with the provisions of Accounting Principles Board Opinion No. 30. The \$729,000 is included in Other Income and Expense on the Consolidated Statement of Operations.

(D) INCOME TAXES

Golconda's effective tax rates for earnings (losses) from continuing operations are different from the Federal statutory rates. The following table analyzes these provision(benefit) differences:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Statutory rates-Federal	48.0%	48.0%	48.0%	48.0%	(48.0)%
Impact of capital gains rates on investment income and losses	(4.8)	(3.3)	(6.2)	(17.2)	2.0
Impact of ordinary rates on investment income deferred until 1975(a)					30.7
Investment tax credits and profits of Domestic International Sales Corporation	(1.0)	(1.8)	(4.9)	(1.8)	.5
State taxes and other	<u>(4.0)</u>	<u>.4</u>	<u>1.6</u>	<u>2.3</u>	<u>7.2</u>
	<u>38.2%</u>	<u>43.3%</u>	<u>38.5%</u>	<u>31.3%</u>	<u>(7.6)%</u>

LS 000514

(a) Because of the substantial tax losses incurred in 1975, excluding deferred investment gains, additional taxes of \$1,522,000 are provided in 1975 for investment earnings because the previously deferred investment earnings are actually taxed at the 48% statutory rate rather than the 30% capital gains rate provided in prior years.

Tax law allows or requires the determination of taxable income in a manner different from generally accepted accounting principles. The table below reconciles earnings of continuing operations per the accompanying financial statements to currently payable taxes.

	(In Thousands)				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Income(Loss) from continuing operations before income taxes	\$2,086	\$3,218	\$5,124	\$10,882	\$(4,956)
Investment gains taxable in different periods due to use of installment sales tax treatment (1974 and 1975) and specific identification costing	(306)	(610)	(529)	(6,709)	8,453
Excess of tax over book depreciation	(120)	(226)	(310)	(308)	(200)
Commissions on Domestic International Sales Corporation		(105)	(195)	195	
Writedown of assets to estimated realizable value					
Gauge				250	374
GMD				234	360
Investment in and advances to foreign joint ventures					200
Mining investments				175	363
Inventory reserves				900	750
Other	<u>13</u>	<u>203</u>	<u>(284)</u>	<u>(355)</u>	<u>298</u>
Current taxable income	<u>\$1,673</u>	<u>\$2,480</u>	<u>\$3,806</u>	<u>\$ 5,264</u>	<u>\$ 5,642</u>
Current income tax provision	<u>\$ 644</u>	<u>\$1,077</u>	<u>\$1,466</u>	<u>\$ 1,643</u>	<u>\$ 2,694</u>

LS 000515

The provision (benefit) for income taxes consists of:

	(In Thousands)				
	1971	1972	1973	1974	1975
Current					
Federal	\$337	\$ 892	\$1,316	\$1,818	\$ 2,061
State	33	68	169	111	-
Deferred	104	316	505	813	(3,070)
	<u>\$474</u>	<u>\$1,276</u>	<u>\$1,990</u>	<u>\$2,742</u>	<u>\$(1,009)</u>
Allocated to:					
Continuing operations	\$796	\$1,393	\$1,971	\$3,406	\$(376)
Discontinued operations	(274)	(117)	19	(664)	(633)
Extraordinary items	(48)	-	-	-	-
	<u>\$474</u>	<u>\$1,276</u>	<u>\$1,990</u>	<u>\$2,742</u>	<u>\$(1,009)</u>

See also Note 1.

(E) EXTRAORDINARY ITEM

The 1971 extraordinary item, net of applicable federal income taxes of \$48,000, relates to a provision for settlement of a lawsuit related to products of the Paris, Illinois plant which had been shut down in 1970. In accordance with the provisions of Accounting Principles Board Opinion No. 30, effective October 1973, the above items would have been charged to continuing operations. However, Opinion No. 30 prohibits restating prior years financial statements for conformity. Had the 1971 statements of consolidated operations been restated, earnings from continuing operations would have been reduced by this amount.

(F) EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per share for the fiscal years 1971 and 1972 and calendar 1975 are based on the weighted average number of common shares outstanding during each period. Primary earnings per share for fiscal 1973 and calendar 1974 were computed by dividing net earnings by the average number of common and common equivalent (preferred stock) shares outstanding. For the years 1973 and 1974, such preferred stock had a dilutive effect on earnings per share, whereas such stock had an anti-dilutive effect for the years prior to 1973 and for 1975. The preferred dividends paid and deducted in arriving at earnings available for common shares in 1971, 1972 and 1975 were \$413,000, \$399,000 and \$383,000, respectively.

Fully diluted earnings per share for fiscal years 1971 through 1974 were computed assuming that the average number of common and/or common equivalent shares outstanding were further increased by conversion as of the beginning of each year of the convertible debentures outstanding (464,000 shares in 1971; 439,000 shares in 1972; 428,000 shares in 1973 and 416,000 shares in 1974). The convertible debentures are not reflected in 1975 because they are anti-dilutive.

Options and warrants have not been reflected in the computations because they are anti-dilutive.

LS 000516

(G) RELATED PARTY TRANSACTIONS

Transactions between the Company and Cerro Corporation and its subsidiaries for the full calendar years of 1974 and 1975 include the following:

	<u>December 31, 1974</u>	<u>December 31, 1975</u>
Purchases	\$3,253,000	\$3,047,000
Sales	-	\$19,000
Interest Income(Note 2)	\$834,000	\$64,000

The Company does not have any other material transactions with Cerro Corporation and its subsidiaries other than certain expenses paid by Cerro and charged to the Company which are directly attributable to the Company. Cerro Corporation did not charge the Company with a management fee in 1974 or 1975.

LS 000517

MANAGEMENT ANALYSIS OF VARIATIONS
IN CONTINUING OPERATIONS

Manufacturing

Sales increased 22% in 1972, of which the acquisition of Anderson Copper and Brass (Anderson) Division in mid-year accounts for 5% and the balance is from sharply higher sales at RegO Division. Earnings increased due to higher sales, cost control programs and reduced interest expense.

Sales rose by 23% in 1973, 8% of which is the full year impact of Anderson, and continued growth of the RegO Division. Earnings increased due to higher sales and improved gross profit margins from reduced manufacturing costs. Operating expenses increased substantially due to higher selling expenses and commissions on increased sales, the full year impact of Anderson, costs for new computer applications and services from an outside service bureau and an incentive bonus plan.

Net sales decreased 6% in 1974; however, the volume decline was much steeper as the Company was able to partially offset lost volume by increased prices. The lower volume is principally attributable to the depressed conditions in the liquid petroleum gas industry. Earnings were severely impacted by the reduced volume, start-up problems at the new Golconda Metals Division (GMD) and by reserves provided to protect against losses on receivables, inventories and the sale of certain equipment. Start-up of GMD resulted in increases in operating expenses such as maintenance and repairs, depreciation and real estate taxes on the new plant. Increased interest expense reflects the cost of financing working capital requirements at RegO and GMD. Higher amounts of other income are due to interest earned on a note received from Cerro Corporation on the sale of Hecla stock.

Net sales decreased 31% in 1975 due principally to lost volume. This lower volume is attributed to depressed conditions in the liquid petroleum gas industry and an indeterminable loss in market share to competitors. The dollar decrease in sales would have been greater except for a small increase in selling prices.

While volume decreased due to lower sales, increased costs of materials and labor, and increased inventory and obsolescence adjustments kept the decrease in cost of goods sold to 20%.

Selling, general and administrative expense decreased 22% due principally to decreased personnel (\$631,000), decreased sales commissions due to lower volume (\$132,000), and reclassifications of certain freight charges.

Interest expense decreased in 1975 primarily as a result of the repayment of the bank note payable in January 1975.

Earnings from continuing operations were severely affected by reduced sales volume, provisions for slow-moving and obsolete inventory, and special provisions and losses on certain transactions which are included in Other Income and Expense in the financial statements (See Note C).

Investments

Earnings reflect the sales of Hecla common stock at market prices in the applicable years net of expenses required to maintain the Golconda Mining Corporation facilities. In 1975 there were no gains from stock sales. The expense represents a write down of mining stock investments and expenses for maintaining the Golconda Mining Corporation facilities (See Note 2). Also see Note D for discussion concerning an additional income tax provision of \$1,522,000.

LS 000518

FOURTH QUARTER RESULTS

Sales and earnings for the fourth of 1974 and 1975 were as follows:

	Three Months Ended December 31,			
	1974		1975	
	<u>Amount</u>	<u>Per Share</u>	<u>Amount</u>	<u>Per Share</u>
	(In thousands except for per share data)			
Sales				
Continuing operations	\$ 4,968		\$ 5,421	
Discontinued operations	<u>7,981</u>		<u>-</u>	
	<u>\$12,949</u>		<u>\$ 5,421</u>	
Net (Loss)				
From continuing operations				
Manufacturing	\$ (228)	\$ (.07)	\$ (1,505)	\$ (.57)
Investment	<u>(334)</u>	<u>(.10)</u>	<u>(1,813)</u>	<u>(.65)</u>
	(562)	(.17)	(3,318)	(1.22)
From discontinued operations	<u>(1,930)</u>	<u>(.58)</u>	<u>(188)</u>	<u>(.07)</u>
Net	<u>\$ (2,492)</u>	<u>\$ (.75)</u>	<u>\$ (3,506)</u>	<u>\$ (1.29)</u>

Sales of continuing manufacturing businesses increased slightly in the fourth quarter over 1974. The fourth quarter of 1974 and 1975 were affected by the depressed conditions in the liquid petroleum gas industry.

The loss from continuing operations is substantially higher in the fourth quarter ended December 31, 1975 due to inventory provisions, tax provision adjustments, and special provisions and losses incurred, including:

1. An additional amount of \$150,000 provided for the estimated loss on disposal of the Golconda Metals Division assets (see Note C).
2. A \$363,000 writedown of mining stock investments (see Note 2).
3. A \$596,000 loss from the expenses and writedowns related to the termination of participation in foreign joint ventures (see Note C).
4. A \$78,000 loss on the sale of the oil-less compressor line.
5. An additional amount of \$140,000 provided for estimated loss on the disposal of the gauge line inventory and equipment.
6. An additional income tax provision of \$1,522,000 (see Note D).

The loss from discontinued operations in 1974 is due primarily to a provision for loss on the sale of Bastian-Blessing. The loss in the fourth quarter of 1975 is primarily the effect after tax of providing an additional \$328,000 for Pioneer Astro Industries loss as a result of the buyer's default (see Note B).

LS 000519

ITEM 3 PROPERTY

The principal plants operated by Golconda Corporation are listed below with their location, square footage, and the principal products manufactured at each location:

<u>Division</u>	<u>Location</u>	<u>Floor Area (Square Feet)</u>	<u>Acreage (Where Appl.)</u>	<u>Principal Products</u>	<u>Owned or Leased</u>
RegO	Chicago, Illinois	347,000	19.2	Valves and Controls	Owned (1)
RDC	Upper Saddle River, N.J. and Chicago Illinois	9,000	-	Distribu- tion Center	Leased (2)
Anderson	Alsip, Illinois	29,000	1.7	Brass Fittings	Owned

(1) See Note 4 of Notes to Financial Statements concerning a mortgage on this plant.

(2) Comprised of two structures, one owned and located in Chicago, Illinois adjacent to the RegO Division manufacturing facilities, and the other leased and located in Upper Saddle River, New Jersey for an annual rental of \$33,000.

RegO Division operations are conducted in seven adjacent buildings. Manufacturing operations are conducted in a single story brick structure. Two of the remaining six building, which are used for storage and warehousing of raw material, semi-finished and finished parts, are of brick construction, and four are metal frame. In total, 243,000 square feet are utilized for manufacturing; 34,000 square feet for divisional and corporate office space, and 70,000 square feet are used for storage and warehousing. Manufacturing machinery and equipment consists of light to medium metal cutting and processing equipment owned by the Company.

Anderson Copper and Brass Division's manufacturing facilities consist of a one-story expandable concrete and steel building. Space is divided into 27,000 square feet for manufacturing and related facilities and 2,000 square feet for office functions.

Golconda owns all of the significant machinery and equipment used in its operations and considers that its plants and equipment, whether owned or leased, are well maintained, adequately insured, and with normal additions and improvements, adequate for its present and foreseeable requirements.

Golconda Corporation owns or controls through stock interests approximately 2,500 acres of undeveloped mineral properties in the silver bearing Coeur d'Alene District of Idaho. The Company also owns an assortment of buildings, sheds, and other pieces of apparatus connected with discontinued operations of the Golconda mine closed in 1957 due to exhaustion of known ore reserves and low metal prices. These structures do not constitute substantial capital properties.

LS 000520

ITEM 4 PARENTS AND SUBSIDIARIES

Parent

Cerro Corporation, a New York corporation, which subsequently merged into Cerro-Marmon Corporation, a Delaware corporation, on February 24, 1976, located at 39 South LaSalle Street, Chicago, Illinois 60603, owns 85% of the outstanding voting stock of the registrant and may be deemed to be a parent of Golconda Corporation.

Subsidiaries

Golconda Corporation has various subsidiaries under various names, all of which in the aggregate as a single subsidiary would not constitute a significant subsidiary.

ITEM 5 PENDING LEGAL PROCEEDINGS

See Note 8 of Notes to Consolidated Financial Statements.

There are no other pending material legal proceedings, other than ordinary routine litigation incidental to the business to which the Company or any of its subsidiaries has become a party or of which any of their property has become the subject.

ITEM 6 INCREASES AND DECREASES IN OUTSTANDING EQUITY SECURITIES

(A) Cumulative Convertible Preferred Stock (Par value \$1.00)	
Balance December 31, 1974 and 1975	<u>383,157</u>
(B) Common Stock (No par value)	
Balance December 31, 1974 and 1975	<u>2,785,595</u>
(C) 7% Convertible Subordinated Debentures due January 1, 1990	
Balance December 31, 1974	\$4,427,000
Purchased by Company throughout year	<u>263,000</u>
Balance December 31, 1975	<u>\$4,164,000</u>
(D) Warrants to Purchase Common Stock @ \$14.51 per share, exercisable from January 15, 1969, expiring January 15, 1979	
Balance December 31, 1974 and 1975	<u>292,467</u>

ITEM 7 APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

\$1.00 Cumulative Convertible Preferred Stock, \$1.00 par value	660
Common Stock, no par value	1,420
7% Convertible Subordinated Debentures due January 1, 1990	705
Warrants expiring January 15, 1979 (Each to purchase one share of common stock at \$14.51 per share)	4

LS 000521

ITEM 8 EXECUTIVE OFFICERS OF THE REGISTRANT

All officers are elected by the Board of Directors and serve at the pleasure of the Board. The listing immediately following this paragraph shows the position with Golconda Corporation of each executive officer; his age; and an account of his business experience during the past five years, including the time he has served in his present position. There is no family relationship between any of the executive officers of Golconda Corporation.

Gordon Paul Smith (59)

Chairman of the Board of Directors since June 1974.

President and Chief Executive Officer (February 1972 to June 1974). Chairman of the Executive Committee in 1971 and a Director since September 1970.

John R. Morrill (59)

President and Chief Executive Officer since May 1975 and a Director since June 1975.

Prior to joining Golconda, Mr. Morrill was Senior Vice President with Automation Industries (1971-1975) and Chairman and President of UMC Industries (1968-1971).

Robert C. Gluth (51)

Vice President and Director since December 1975.

Mr. Gluth has been a Vice President of The Marmon Group, Inc. (Michigan) since February 1970, Vice President of GL Corporation since 1972 and Vice President of Cerro Corporation since May 1975.

Thomas L. Seifert (35)

Secretary and General Counsel since December 1975.

Mr. Seifert has been Associate General Counsel and Assistant Secretary for Cerro Corporation since October 1975. Prior to joining Cerro, Mr. Seifert was Associate General Counsel for Canteen Corporation (April 1973 to October 1975) and an attorney with Standard Oil Company (December 1970 to April 1973).

David R. Nomura (32)

Treasurer since October 1975.

Prior to joining Golconda, Mr. Nomura was an Audit Manager with the firm of Coopers & Lybrand in Chicago with which he was employed since June 1965.

Charles B. Cranford (38)

Vice President-Controller since January 1974.

Controller of both the Corporation and RegO Division since January 1973. Prior to joining Golconda, he served as division controller and in other accounting assignments for the AMF Corporation.

LS 000522

Wray Featherstone (63)

Vice President and Director, which positions have been held for more than five years.

President of Golconda Mining Corporation since 1972.

Donald V. Ytterberg (49)

Vice President since December 1972.

Mr. Ytterberg was a Vice President of the Anderson Copper and Brass Company when it was acquired by Golconda in July 1972 and was named President of Anderson in January 1974.

ITEM 9 INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article VI, Section 1, of the ByLaws of the Company entitled "Indemnification of Directors and Officers" reads as follows:

"Any present or future director or officer, or the executor, administrator or other legal representative of any such director or officer, shall be indemnified by the corporation against reasonable costs, expenses (exclusive of any amount paid to the corporation in settlement), judgments, fines, amounts paid in settlement of any action, suit or proceedings, and counsel fees paid or incurred in connection with any action, suit or proceeding to which legal representative may hereafter be made a party by reason of his being or having been such director or officer; provided, (1) said action, suit or proceeding shall be prosecuted against such director or officer or against his executor, administrator or other legal representative to final determination, and it shall not be finally adjudged in said action, suit or proceedings that he had been derelict in the performance of his duties as such director or officer, or (2) said action, suit or proceeding shall not be settled or otherwise terminated as against such director or officer or his executor, administrator or other legal representative without a final determination on the merits, and it shall be determined that such director or officer had not in any substantial way been derelict in the performance of his duties as charged in such action, suit or proceeding, such determination to be made by a majority of the members of the board of directors who were not parties to such action, suit or proceeding, though less than a quorum, or by any one or more disinterested persons to whom the question may be referred by the board of directors. For purposes of the preceding sentence: (a) "action, suit or proceeding" shall include every action, suit or proceeding, civil, criminal or other; (b) the right of indemnification conferred thereby shall extend to any threatened action, suit or proceeding and the failure to institute it shall be deemed its final determination; (c) the termination of an action, suit or proceeding by a plea of nolo contendere or other like plea shall not constitute a final determination on the merits; (d) a judgment of conviction in any criminal action, suit or proceeding shall not constitute a determination that the person so convicted has been derelict in the performance of his duties if it is determined by a majority of the members of the board of directors who were not a party thereto, though less than a quorum, or by one or more disinterested persons in the manner provided in the preceding sentence that the person so convicted acted in good faith, for a purpose which he reasonably believed to be in the best interests of the company and that he had no reasonable cause to believe that his conduct was unlawful; and (e) advances may be made by the company against costs, expenses and fees as, and upon the terms, determined by the board of directors. The corporation shall indemnify an employee who is not an officer to the same extent that it does an officer. The foregoing right of indemnification shall not be exclusive of any

LS 000523

other rights to which any director or officer may be entitled as a matter of law or which may be lawfully granted to him; and the indemnification hereby granted by the company shall be in addition to and not in restriction or limitation of any other privilege or power which the corporation may lawfully exercise with respect to the indemnification or reimbursement of directors, officers or employees."

LS 000524

ITEM 10

GOLCONDA CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES
December 31, 1974 and 1975

	<u>PAGE</u>
Report of Independent Accountants	F-2
Financial Statements:	
Consolidated Balance Sheet	F-3 & F-4
Consolidated Statement of Operations and Notes Thereto	Item 2
Consolidated Statement of Retained Earnings	Item 2
Consolidated Statement of Additional Contributed Capital	Item 2
Consolidated Statement of Changes in Financial Position	F-5 & F-6
Notes to Consolidated Financial Statements	F-7 to F-12
Schedules	
V - Property, Plant and Equipment	F-13
VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment	F-14
VII - Intangible Assets, Deferred Research and Development Expenses, Preoperating Expenses and Similar Deferrals	F-15
XII - Reserves	F-16
XVI - Supplementary Income Statement Information	F-17
Exhibit I - Calculation of Earnings Per Share	F-18 & F-19

Schedules not included above are omitted as either not applicable or not required or the required information is included in Notes to Consolidated Financial Statements.

The individual financial statements of the Registrant are omitted because consolidated financial statements are filed and because the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements are totally-held subsidiaries.

LS 000525

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and
Board of Directors

Golconda Corporation

We have examined the consolidated balance sheets of Golconda Corporation (a subsidiary of Cerro Corporation) and its subsidiaries as of December 31, 1975 and 1974 and the related consolidated statements of operations, of retained earnings, of additional contributed capital, appearing elsewhere herein, and of changes in financial position and schedules for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In 1973, the accounting profession changed the criteria for determining the types of items to be reported as extraordinary items, and accordingly, the Company has reflected these changes in its 1975 and 1974 Consolidated Statements of Operations, as described in Note E to the Consolidated Statements of Operations.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Golconda Corporation and its subsidiaries at December 31, 1975 and 1974, the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the period and on a basis consistent with that of the preceding year except for the change, with which we concur, referred to in the preceding paragraph.

Price Waterhouse & Co.
Price Waterhouse & Co.

Chicago, Illinois
February 2, 1976

F-2

LS 000526

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 1974 and 1975

<u>ASSETS</u>			
<u>CURRENT ASSETS</u>		1974	1975
Cash		\$ 1,827,000	\$ 26,000
Certificates of Deposit		-	3,000,000
Commercial Paper		-	4,550,000
Notes and Accounts Receivable less allowance for doubtful receivables (1974 - \$268,000; 1975 - \$291,000) (Note B) (Schedule XII)		5,556,000	5,178,000
Note Receivable from Cerro Corporation, including interest (Note 2)		9,242,000	-
Inventories (Note 1) (Schedule XII)		17,518,000	10,775,000
Income Taxes (Note 1)		-	462,000
Refund Receivable		-	1,390,000
Prepaid		-	-
Prepaid Expenses and Sundry Deposits		82,000	169,000
Investments Held for Sale-at estimated realizable value (Note 2)		-	250,000
Assets of Businesses Held for Sale-at estimated realizable value (Notes 7 and C)		4,660,000	715,000
Total Current Assets		38,885,000	26,515,000
<u>INVESTMENTS</u> - at cost less reserve of \$175,000 for value decline (Note 2) (Schedule XII)		613,000	-
<u>PROPERTY, PLANT AND EQUIPMENT</u> - at cost (Notes 1 and 4) (Schedules V and VI)			
Buildings and Improvements		3,396,000	2,947,000
Machinery, Equipment and Tools		12,356,000	7,089,000
Office Furniture and Fixtures		409,000	256,000
		16,161,000	10,292,000
Less-Accumulated Depreciation		(8,084,000)	(5,680,000)
		8,077,000	4,612,000
Land		839,000	598,000
		8,916,000	5,210,000
<u>OTHER ASSETS</u>			
Excess of Cost over underlying equity of net assets acquired (Notes 1 and B) (Schedule VII)		3,135,000	3,135,000
Deferred Debt Expense - less amortization on the bonds outstanding method (1974 - \$160,000; 1975 - \$74,000)		410,000	336,000
Sundry		297,000	87,000
		3,842,000	3,558,000
TOTAL ASSETS		\$52,256,000	\$35,283,000

The accompanying notes are an integral part of this statement.

LS 000527

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 1974 and 1975

<u>LIABILITIES</u>		1974	1975
<u>CURRENT LIABILITIES</u>			
Current Maturities of Long-Term Debt(Note 4)	\$	80,000	\$ 89,000
Notes Payable - Banks(Note 3)		8,000,000	-
Accounts Payable		1,989,000	1,529,000
Accounts Payable - Parent		363,000	741,000
Income Taxes (Note 1)			
Currently Payable		1,420,000	-
Deferred		1,136,000	-
Accrued Liabilities			
Salaries, Wages, etc.		193,000	160,000
Property and Payroll Taxes		315,000	245,000
Interest		79,000	1,000
Employee Benefits		181,000	122,000
Other		56,000	401,000
Total Current Liabilities		<u>13,812,000</u>	<u>3,288,000</u>
 <u>LONG-TERM DEBT (Note 4)</u>		 <u>7,058,000</u>	 <u>6,706,000</u>
 <u>DEFERRED INCOME TAXES (Note 1)</u>		 <u>964,000</u>	 <u>565,000</u>
 <u>COMMITMENTS AND CONTINGENT LIABILITIES(Notes 5 and 8)</u>		 -	 -
 <u>STOCKHOLDERS' EQUITY (Notes 4 and 6)</u>			
Capital Stock			
Preferred(Redemption and liquidation value- 1974 and 1975 - \$14,368,000)		383,000	383,000
Common		774,000	774,000
Additional Contributed Capital		5,674,000	5,674,000
Retained Earnings		<u>24,111,000</u>	<u>18,413,000</u>
		<u>30,942,000</u>	<u>25,244,000</u>
Less Treasury Stock - at cost		<u>520,000</u>	<u>520,000</u>
		<u>30,422,000</u>	<u>24,724,000</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		 <u>\$52,256,000</u>	 <u>\$35,283,000</u>

The accompanying notes are an integral part of this statement.

LS 000528

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION

For the Years Ended December 31, 1974 and 1975

	<u>1974</u>	<u>1975</u>
WORKING CAPITAL PROVIDED BY (USED IN) OPERATIONS		
Earnings(Loss) from continuing operations	\$ 7,476,000	\$(4,580,000)
Loss from discontinued operations	(1,915,000)	(735,000)
Add(deduct) items not requiring outlay of working capital:		
Depreciation	1,192,000	936,000
Amortization of deferred expenses	153,000	74,000
Deferred income taxes	(189,000)	(399,000)
Cost of investments sold	2,382,000	-
Reduction in carrying value of investments	175,000	363,000
Writeoff of excess cost over underlying equity of net assets acquired	1,240,000	-
Writedown of advances to and investments in foreign joint ventures	-	227,000
Other	<u>237,000</u>	<u>20,000</u>
Working capital provided from (used in) operations	<u>10,751,000</u>	<u>(4,094,000)</u>
OTHER WORKING CAPITAL PROVIDED		
Reduction of long-term investments	-	250,000
Net fixed assets sold or retired		
Discontinued Operations	-	747,000
Golconda Metals Division	-	960,000
Net fixed assets transferred to assets held for sale:		
Discontinued Operations	1,695,000	-
Golconda Metals Division	-	1,249,000
Gauge Assets	-	250,000
Reduction of long-term notes receivable	298,000	-
Increase in working capital for December, 1973 (Note A)	<u>405,000</u>	<u>-</u>
Working capital provided by other than operations	<u>2,398,000</u>	<u>3,456,000</u>
DISPOSITIONS OF WORKING CAPITAL		
Net additions to property, plant and equipment	1,890,000	456,000
Reduction of long-term debt	3,098,000	352,000
Preferred cash dividends	383,000	383,000
Sundry	<u>(5,000)</u>	<u>17,000</u>
Dispositions of working capital	<u>5,366,000</u>	<u>1,208,000</u>
INCREASE(DECREASE) IN WORKING CAPITAL	<u>\$ 7,783,000</u>	<u>\$(1,846,000)</u>

(continued)

LS 000529

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION

For the Years Ended December 31, 1974 and 1975

	13 Months Ended December 31, 1974 (Note A)	December 31, 1975
INCREASES(DECREASES) IN ELEMENTS OF WORKING CAPITAL		
Cash and certificates of deposit	\$ 598,000	\$ 1,199,000
Commercial paper	-	4,550,000
Notes and accounts receivable - net	5,885,000	(9,620,000)
Inventories	(2,196,000)	(6,745,000)
Income taxes	-	1,952,000
Prepaid expenses and sundry deposits	(107,000)	87,000
Investments held for sale	-	250,000
Net assets of businesses held for sale	<u>4,660,000</u>	<u>(3,945,000)</u>
Net increase (decrease) in current assets	<u>8,840,000</u>	<u>(12,370,000)</u>
Current maturities of long-term debt	(816,000)	9,000
Notes payable	4,365,000	(8,000,000)
Accounts payable	(3,336,000)	(82,000)
Income taxes	1,678,000	(2,556,000)
Accrued liabilities	<u>(834,000)</u>	<u>105,000</u>
Net increase(decrease) in current liabilities	<u>1,057,000</u>	<u>(10,524,000)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$7,783,000</u>	<u>\$ (1,846,000)</u>

The accompanying notes are an integral part of this statement.

LS 000530

GOLCONDA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974 and 1975

Note 1: SUMMARY OF ACCOUNTING POLICIES

CONSOLIDATION - All operating subsidiaries are consolidated and significant inter-company transactions have been eliminated.

NOTE REFERENCES - In the accompanying financial statements, alphabetic note references are to Notes to Consolidated Statement of Operations included elsewhere herein.

INVENTORIES - Inventories are stated at the lower of cost (determined by the first-in, first-out method) or market. Inventories are comprised of the following:

	(In Thousands)		
	<u>1973</u>	<u>1974</u>	<u>1975</u>
Finished Goods and Work in Process	\$16,598	\$14,685	\$ 9,134
Raw Materials and Supplies	<u>3,718</u>	<u>2,833</u>	<u>1,641</u>
Total	<u>\$20,316</u>	<u>\$17,518</u>	<u>\$10,775</u>

INVESTMENTS - Golconda carries its investments in mining companies at the lower of cost or estimated realizable value. Gains or losses on sales are determined based on the average cost of securities.

DEPRECIATION - For financial reporting purposes, the Company computes depreciation principally on a straight-line basis over the estimated useful life of the assets. The estimated service lives and methods used in determining depreciation are as follows:

<u>Description</u>	<u>Service Lives</u>	<u>Method of Depreciation</u>
Buildings and improvements	5 to 50 years	Straight-line
Machinery	5 to 20 years	Straight-line
Furniture and fixtures	5 to 20 years	Straight-line
Land improvements	15 to 20 years	Straight-line

Maintenance and repairs are charged to operations as incurred. Betterments and major renewals are capitalized. Upon sale or disposition of properties, the asset account is relieved of the cost, the accumulated depreciation account is relieved of the depreciation taken prior to the sale and any resultant gain or loss is reflected in earnings.

INCOME TAXES - Provision is made for deferred taxes which arise primarily from the use for tax purposes of accelerated depreciation methods and the installment sales method for investment income. Prepaid income taxes arise from provisions not currently deductible for tax purposes, principally related to inventory and assets of businesses held for sale. Available investment tax credits are accounted for under the "flow-through" method. In 1974 the amount available was \$43,000. In 1975 the amount available was \$46,000, but recapture amounted to \$61,000, resulting in a net investment tax credit recapture of \$15,000. The investment tax credit and the effect of the use of a Domestic International Sales Corporation resulted in Federal income tax provision reductions of \$180,000 and \$25,000 in 1974 and 1975, respectively.

LS 000531

Effective June 3, 1974, Golconda was included in the consolidated Federal tax return of Cerro Corporation. Under the terms of Golconda's tax sharing agreement with Cerro, Federal income taxes are computed as if Golconda and its subsidiaries continued to file a separate consolidated return and liabilities are remitted to and benefits and refunds obtained on this basis from Cerro. State income tax returns are filed on an individual company basis.

RESEARCH AND PRODUCT DEVELOPMENT COSTS - Research and product development costs are expensed as incurred.

EXCESS OF COST OF ACQUIRED COMPANIES OVER EQUITY - The amount shown on the balance sheet arose prior to fiscal year 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

PENSION PLANS - Unfunded past service costs are being funded on a thirty-year basis; current costs are being funded as accrued.

Note 2: INVESTMENTS

At December 31, 1974 and 1975, investments were comprised of the capital stock of mining companies as follows:

	<u>1974</u>		<u>1975</u>	
	<u>Balance</u>	<u>Quoted Market Price (a)</u>	<u>Balance</u>	<u>Quoted Market Price (a)</u>
Alice Consolidated Mines, Inc. (54% owned) (4,308,020 shares in 1974 and 1975)	\$399,000	\$1,508,000	\$399,000	\$ 819,000
Other	389,000	388,000	389,000	255,000
Reserve	(175,000)			
Writedown to estimated realizable value (b)			(538,000)	
	<u>\$613,000</u>	<u>\$1,896,000</u>	<u>\$250,000</u>	<u>\$1,074,000</u>

(a) The quoted market prices in the various stocks result from limited and very small share quantity transactions and management believes they are not representative for large block and controlling interest transactions.

(b) It is the Company's intention to dispose of these investments in 1976, and accordingly, their carrying value has been reduced to management's estimate of realizable value.

The primary asset of Alice Consolidated Mines, Inc. (Alice), 51% of total investments, is 1,109 acres of mining properties which, until June 1975, had been undergoing exploration and development by another mining company under an agreement in which Golconda also participated. All exploration and development of these properties has ceased due to lack of sufficient mineralization to warrant further development effort. Management believes that the value of Alice has been permanently impaired by the cessation of such exploration and development.

LS 000532

Earnings (loss), before income taxes, from investments for the years ended December 31, 1974 and 1975 are summarized below:

	<u>1974</u>	<u>1975</u>
Net gain on sale of Hecla Mining Company stock		
Shares sold to Cerro	\$ 8,033,000	
Shares sold to others	2,508,000	
Expenses, principally for administration of properties	(100,000)	\$(71,000)
Reserve for value decline of certain investments	<u>(175,000)</u>	<u>(363,000)</u>
Investment earnings (loss) before income taxes	<u>\$10,266,000</u>	<u>\$(434,000)</u>

The sale of Hecla stock to Cerro was completed on a basis which resulted in Golconda receiving \$916,651 in cash and \$9,000,000 in a 2-1/2 year promissory note of Cerro with interest at 110% of the prime rate. On January 24, 1975 the note was prepaid by Cerro together with accrued interest.

Note 3: SHORT-TERM DEBT

The \$8,000,000 note payable to bank at December 31, 1974 arose in conjunction with the sale of Hecla shares (see Note 2) and, although originally a long-term borrowing, was classified as short-term in the 1974 balance sheet because the proceeds of the Cerro note receivable (see Note 2) were used to retire this obligation on January 25, 1975.

Note 4: LONG-TERM DEBT

Long-term debt at December 31, 1974 and 1975 is comprised of the following (in thousands):

	<u>1974</u>	<u>1975</u>
7% convertible subordinated debentures due January 1, 1990	\$4,427	\$4,164
10% first mortgage note payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	<u>2,711</u>	<u>2,631</u>
	7,138	6,795
Less current maturities	<u>80</u>	<u>89</u>
	<u>\$7,058</u>	<u>\$6,706</u>

The aggregate amounts of long-term debt maturing in each of the five years subsequent to December 31, 1975 are as follows:

1976	\$ 89,000
1977	98,000
1978	247,000
1979	444,000
1980	457,000

LS 000533

The 7% convertible subordinated debenture agreement contains certain covenants, the most restrictive of which provide, among other things, that the Company:

Will maintain consolidated net working capital of \$10,000,000.
At December 31, 1975, consolidated net working capital was \$23,227,000.

Will not pay cash dividends or acquire for cash any shares of its stock in excess of \$1,000,000 plus its cumulative consolidated net income after November 30, 1969. At December 31, 1975, retained earnings in the amount of \$4,558,000 were free of such restrictions.

In connection with the 7% subordinated note agreements, the Company has issued warrants entitling the holders thereof to purchase, at a price per share of \$14.51, up to 292,467 shares of the Company's common stock. These warrants expire January 15, 1979.

The trust indenture underlying the convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 104.0% in 1976 to 100% in 1984; that annual sinking fund payments of \$325,000 are required beginning in 1976 (such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock, and as a result, all of the 1976 and 1977 installments and all but \$139,000 of the 1978 installment have already been satisfied), that the Company has an option to make additional annual payments of \$325,000 and that the debentures are convertible into shares of common stock at a conversion price of \$10.67 per share (subject to non-dilution provisions).

Note 5: PENSION PLANS

The Company has two pension plans covering substantially all employees. The charges to continuing operations for the cost of the pension plans for the years ended December 31, 1975 and 1974 were \$355,000 and \$381,000, respectively.

In connection with the sale of the Bastian-Blessing Division (see Note 8), the buyer agreed to assume all liabilities for pension benefits of Bastian-Blessing employees and the Company agreed to transfer to the buyer the pension fund assets attributable to Bastian-Blessing employees. This distribution of pension plan assets is expected to be concluded and approved by the Internal Revenue Service during 1976 and a current actuarial study will be completed at that time. As of the date of the latest actuarial valuations (December 1, 1974), the actuarially computed value of the unfunded vested benefits and unfunded prior service cost for the continuing plans exceeded the total of the pension fund assets and balance sheet accruals by approximately \$2,900,000 and approximately \$3,700,000, respectively.

The Company's actuary has determined that the Employee Retirement Income Security Act of 1974 is not expected to have a significant effect upon the cost of the Company's pension plans.

Note 6: CAPITAL STOCK

Preferred stock consists of 934,406 authorized shares of \$1.00 par value, of which 383,157 shares are issued and outstanding at December 31, 1975.

The preferred stock is entitled to a preferential cumulative annual dividend at a rate of \$1.00 per share. The shares are redeemable at the option of the Company at \$37.50 per share plus unpaid cumulative dividends. The aggregate redemption and liquidation value at December 31, 1975 is \$14,368,387. The preferred stock has liquidation rights over the common stock in any final distribution and

LS 000534

is entitled to one vote for each share held.

The preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares common stock for each preferred share held. This conversion rate is subject to non-dilution provisions.

Common stock consists of 7,500,000 authorized shares, without par value, of which 2,785,595 shares are outstanding. At December 31, 1975, 1,282,103 shares of authorized but unissued common shares have been reserved as follows: 574,735 shares upon conversion of preferred stock; 414,901 shares upon conversion of the 7% convertible subordinated debenture (Note 4); 292,467 shares upon exercise of warrants for the purchase of common stock (Note 4). At December 31, 1975, there are 71,250 shares of common stock held in treasury.

During 1974, Cerro Corporation acquired 2,411,325 common shares and 281,635 preferred shares representing 86.6% and 73.5% of the total outstanding, respectively.

An analysis of the transactions during the thirteen months ended December 31, 1974 affecting preferred and common stock, additional contributed capital and treasury stock follows:

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Contributed Capital</u>	<u>Treasury Stock</u>
Balance at November 30, 1973	\$383,212	\$773,647	\$5,673,539	\$(519,600)
Conversion of 55 shares of preferred stock into 82 shares of common stock	<u>(55)</u>	<u>55</u>		
Balance at December 31, 1974	<u>\$383,157</u>	<u>\$773,702</u>	<u>\$5,673,539</u>	<u>\$(519,600)</u>

There was no activity during the year ended December 31, 1975.

Note 7: NET ASSETS OF BUSINESSES HELD FOR SALE

The balance at December 31, 1974 represents the net assets of the Bastian-Blessing Division (principally receivables, inventory and property, plant and equipment) which was sold in February, 1975.

The December 31, 1975 balance consists principally of the property, plant and equipment of the Golconda Metals Division (see Note C).

Note 8: CONTINGENT LIABILITIES

The Company is one of 35 defendants in an alleged class action by a shareholder of United States National Bank of San Diego, in Fred H. Harmsen, et al vs. C. Arnholt Smith, et al, filed on October 29, 1973, in the United States District Court for the Southern District of California. The plaintiff purports to be acting in a derivative capacity on behalf of the shareholders of the bank. The complaint seeks damages and other relief on behalf of the shareholders of the bank on account of alleged violations of federal securities laws, illegal loans, improper acts of the bank's directors, and conspiracy to commit the foregoing acts and fraud.

LS 000535

In the opinion of the Company and outside counsel, the exposure of Golconda Corporation to any liability seems very remote in that the corporation's only connection with the United States National Bank or with C. A. Smith is that some of Golconda Corporation's stock was at one time possessed by one of the Smith-dominated corporations. There have not been any material transactions between the Company and the other defendants and the United States National Bank of San Diego, and it is management's opinion that there are no facts, nor have any been specifically alleged relating to Golconda warranting inclusion of the Company in the complaint. An identical class action suit was filed by plaintiff in the Superior Court in and for the County of San Diego to toll the statute of limitations in the State Court, but to date this suit has not yet been formally served upon Golconda Corporation.

LS 000536

F-12

GOLCONDA CORPORATION AND SUBSIDIARIES

SCHEDULE V

PROPERTY, PLANT AND EQUIPMENT

	Balance at Beginning of Period	Additions at Cost	Deductions Properties of Discontinued Operations	Retirements and Sales	Other Changes	Balance at End of Period
Year Ended 12/31/75						
Land	\$ 839,000	\$ -	\$ -	\$ -	\$ (241,000)	\$ 598,000
Buildings & Improvements	3,396,000	132,000	(235,000)	(3,000)	(343,000)	2,947,000
Machinery, Equipment & Tools	12,356,000	354,000	(4,223,000)	(259,000)	(1,139,000)	7,089,000
Furniture & Fixtures	409,000	1,000	(50,000)	(103,000)	(1,000)	256,000
	<u>\$17,000,000</u>	<u>\$ 487,000</u>	<u>\$ (4,508,000)</u>	<u>\$ (365,000)</u>	<u>\$ (1,724,000) (A)</u>	<u>\$10,890,000</u>
Year Ended 12/31/74						
Land	\$ 691,000	\$ 180,000	\$ (32,000)	\$ -	\$ -	\$ 839,000
Buildings & Improvements	4,963,000	349,000	(1,896,000)	(20,000)	-	3,396,000
Machinery, Equipment & Tools	13,178,000	1,329,000	(1,565,000)	(290,000)	(296,000)	12,356,000
Furniture & Fixtures	525,000	85,000	(168,000)	(33,000)	-	409,000
	<u>\$19,357,000</u>	<u>\$1,943,000</u>	<u>\$ (3,661,000)</u>	<u>\$ (343,000)</u>	<u>\$ (296,000) (A)</u>	<u>\$17,000,000</u>

(A) Transfer to Assets Held for Sale

GOLCONDA CORPORATION AND SUBSIDIARIES

SCHEDULE VI

ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT & EQUIPMENT

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Balance of Discontinued Operations	Retirements and Sales	Other	Balance at End of Period
Year Ended 12/31/75						
Buildings & Improvements	\$1,400,000	\$ 125,000	\$ (190,000)	\$ (3,000)	\$ (24,000)	\$1,308,000
Machinery, Equipment & Tools	6,446,000	774,000	(2,565,000)	(234,000)	(180,000)	4,241,000
Furniture & Fixtures	238,000	37,000	(46,000)	(97,000)	(1,000)	131,000
	<u>\$8,084,000</u>	<u>\$ 936,000</u>	<u>\$(2,801,000)</u>	<u>\$(334,000)</u>	<u>\$(205,000) (A)</u>	<u>\$5,680,000</u>
Year Ended 12/31/74						
Buildings & Improvements	\$2,035,000	\$ 249,000	\$ (863,000)	\$ (21,000)	\$ -	\$1,400,000
Machinery, Equipment & Tools	6,842,000	879,000	(1,007,000)	(242,000)	(26,000)	6,446,000
Furniture & Fixtures	299,000	64,000	(98,000)	(27,000)	-	238,000
	<u>\$9,176,000</u>	<u>\$1,192,000</u>	<u>\$(1,968,000)</u>	<u>\$(290,000)</u>	<u>\$(26,000) (A)</u>	<u>\$8,084,000</u>

(A) Transfer to Assets Held for Sale

GOLCONDA CORPORATION AND SUBSIDIARIES

SCHEDULE VII

INTANGIBLE ASSETS, DEFERRED RESEARCH AND DEVELOPMENT
EXPENSES, PRE-OPERATING EXPENSES AND SIMILAR DEFERRALS

EXCESS OF COST OVER UNDERLYING EQUITY OF NET ASSETS ACQUIRED

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Deductions</u>	<u>Other Changes</u>	<u>Balance at End of Period</u>
Year Ended 12/31/75	<u>\$3,135,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,135,000</u>
Year Ended 12/31/74	<u>\$4,375,000</u>	<u>\$ -</u>	<u> (A) \$(1,240,000)</u>	<u>\$ -</u>	<u>\$3,135,000</u>

(A) Written off in connection with sale of division.

GOLCONDA CORPORATION & SUBSIDIARIES

SCHEDULE XII

RESERVES

	Balance at Beginning of Period	Charged Costs and Expenses	Deductions	Balance at End of Period
<u>Continuing Operations</u>				
Allowance for Doubtful Receivables				
Year Ended 12/31/75	<u>\$256,000</u>	<u>\$ 322,000</u>	<u>\$(287,000)</u>	<u>\$ 291,000</u>
Year Ended 12/31/74	<u>\$ 55,000</u>	<u>\$ 237,000</u>	<u>\$(36,000) (B)</u>	<u>\$ 256,000</u>
Inventory Valuation Reserve				
Year Ended 12/31/75	<u>\$900,000</u>	<u>\$1,260,000</u>	<u>\$(510,000)</u>	<u>\$1,650,000</u>
Year Ended 12/31/74	<u>\$ -</u>	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ 900,000</u>
Reserve for Decline in Market Value of Investments				
Year Ended 12/31/75	<u>\$175,000</u>	<u>\$ -</u>	<u>\$(175,000) (C)</u>	<u>\$ -</u>
Year Ended 12/31/74	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>
<u>Discontinued Operations</u>				
Allowance for Doubtful Receivables				
Year Ended 12/31/75	<u>\$ 98,000</u>	<u>\$ -</u>	<u>\$(98,000) (A)</u>	<u>\$ -</u>
Year Ended 12/31/74	<u>\$ 29,000</u>	<u>\$ 119,000</u>	<u>\$(50,000) (B)</u>	<u>\$ 98,000 (D)</u>

- (A) Included with assets of divisions sold.
 (B) Uncollectible accounts written off, net of recoveries.
 (C) Included as part of the writedown to net realizable value in 1975.
 (D) Balance includes \$12,000 for Pioneer Astro Industries Division contracts business and \$86,000 for Bastian-Blessing Division.

GOLCONDA CORPORATION AND SUBSIDIARIES
SCHEDULE XVI
SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended	
	<u>12/31/75</u>	<u>12/31/74</u>
Continuing Operations		
Maintenance & Repairs	\$ <u>528,000</u>	\$ <u>697,000</u>
Depreciation of Property, Plant & Equipment	\$ <u>936,000</u>	\$ <u>829,000</u>
Taxes Other Than Income Taxes: Real Estate & Personal Property	\$ 250,000	\$ 307,000
Payroll	425,000	692,000
Sundry	<u>14,000</u>	<u>1,000</u>
Total Taxes	\$ <u>689,000</u>	\$ <u>1,000,000</u>
Rents	\$ <u>273,000</u>	\$ <u>182,000</u>
Discontinued Operations		
Maintenance & Repairs		\$ <u>135,000</u>
Depreciation of Property, Plant & Equipment		\$ <u>363,000</u>
Taxes Other Than Income Taxes: Real Estate & Personal Property		\$ 295,000
Payroll		589,000
Sundry		<u>6,000</u>
Total Taxes		\$ <u>890,000</u>

LS 000541

P A R T I I

Part II will not be filed at this time pursuant to General Instructions H which permits omission if a proxy statement is filed not later than 120 days after the close of the fiscal year.

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, Golconda Corporation has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

GOLCONDA CORPORATION

/s/ David R. Nomura
by: David R. Nomura
Treasurer

DATE: March 29, 1976

LS 000542

GOLCONDA CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS PER SHARE
(In Thousands except for per share data)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974(A)</u>	<u>1975</u>
Shares for computations:					
Weighted average shares outstanding	2,785	2,785	2,785	2,785	2,785
Common stock equivalents(B):					
Assumed conversion of convertible preferred stock into common(C)	-	-	580	575	-
Employee stock options and stock warrants under the treasury stock method(D)	-	-	-	-	-
Common shares for primary earnings per share	2,785	2,785	3,365	3,360	2,785
Assumed conversion of convertible preferred stock into common(C)	602	585	-	-	-
Assumed conversion of 7% convertible subordinated debentures under if converted method (E)	464	439	428	416	-
Additional stock option and stock warrant shares under treasury stock method (D)	-	-	-	-	-
Common shares for fully diluted earnings per share	<u>3,851</u>	<u>3,809</u>	<u>3,793</u>	<u>3,776</u>	<u>2,785</u>
Net income for computations:					
Earnings (loss) from continuing operations:					
Manufacturing	\$ 927	\$1,484	\$1,970	\$ 455	\$(2,767)
Add interest savings net of applicable income taxes (B):					
Employee stock options and stock warrants(D)	<u>927</u>	<u>1,484</u>	<u>1,970</u>	<u>455</u>	<u>(2,767)</u>
Investments	<u>363</u>	<u>341</u>	<u>1,183</u>	<u>7,021</u>	<u>(1,813)</u>
	<u>1,290</u>	<u>1,825</u>	<u>3,153</u>	<u>7,476</u>	<u>(4,580)</u>
Earnings (loss) of discontinued operations	<u>(347)</u>	<u>(119)</u>	<u>48</u>	<u>(1,915)</u>	<u>(735)</u>
Earnings before preferred dividend requirement and extraordinary items	943	1,706	3,201	5,561	(5,315)
Less preferred dividend requirement (C)	<u>(413)</u>	<u>(399)</u>	<u>-</u>	<u>-</u>	<u>(383)</u>
Earnings before extraordinary items	530	1,307	3,201	5,561	(5,698)
Extraordinary items	<u>(52)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss) for primary earnings per share	478	1,307	3,201	5,561	(5,698)
Plus preferred dividend requirement (C)	413	399	-	-	-
Add interest savings, net of applicable income taxes:					
7% convertible debentures(E)	200	197	185	184	-
Employee stock options and stock warrants(D)	-	-	-	-	-
Net income (loss) for fully diluted earnings per share	<u>\$1,091</u>	<u>\$1,903</u>	<u>\$3,386</u>	<u>\$5,745</u>	<u>\$(5,698)</u>

(See notes on next page)

LS 000543

- (A) Reference is made to Note A of Notes to Consolidated Statement of Earnings.
- (B) Yield of the 7% convertible debenture exceeded 66-2/3% of prime rate at date of issue, and therefore is not a common stock equivalent.
- (C) Anti-dilutive in 1971, 1972 and 1975. Dilutive, and therefore included in shares for primary earnings computation, in 1973 and 1974.
- (D) Options and warrants are anti-dilutive, and therefore excluded from primary and fully diluted earnings per share calculations based on calculations where shares are assumed to be repurchased at the higher of average price or year-end closing price of Golconda Corporation or its predecessor. Interest savings resulting from assumed retirement of debt from proceeds of options and warrants would be determined under the 20% rule if options and warrants were not anti-dilutive in each year.
- (E) Anti-dilutive in 1975.

LS 000544

Golconda 76

Golconda Corporation Annual Report 1976

LS 000545

Directors

- R. M. Dunn, Director and Chairman Executive Committee, Ozark Airlines, Inc., St. Louis, Missouri; Chairman of the Board, Ken-A-Vision Manufacturing Co. (Manufacturing), Kansas City, Missouri
- W. Featherstone, Mining Engineer, Wallace, Idaho
- R. C. Gluth, Vice President, Golconda Corporation; Executive Vice President, Cerro-Marmon Corporation (Diversified Manufacturing); Executive Vice President, The Marmon Group, Inc. (Michigan) (Diversified Manufacturing), Chicago, Illinois
- G. A. Jones, Executive Vice President, Cerro-Marmon Corporation (Diversified Manufacturing); Executive Vice President, The Marmon Group, Inc. (Michigan) (Diversified Manufacturing), Chicago, Illinois
- H. F. Magnuson, Partner, H. F. Magnuson & Company (Certified Public Accountants), Wallace, Idaho
- J. R. Morrill, President and Chief Executive Officer, Golconda Corporation
- R. A. Pritzker, President, Cerro-Marmon Corporation (Diversified Manufacturing); President, The Marmon Group, Inc. (Michigan) (Diversified Manufacturing), Chicago, Illinois
- G. P. Smith, Chairman of the Board, Golconda Corporation

Transfer Agent

American National Bank & Trust Co.
Chicago, Illinois

Registrar

American National Bank & Trust Co.
Chicago, Illinois

Auditors

Arthur Young & Company
Chicago, Illinois

1977 Annual Meeting

Golconda's 1977 annual meeting of stockholders will be at 9:00 A.M. on Friday, June 17, 1977 at the offices of the RegO Division, 4201 W. Peterson Avenue, Chicago, Illinois 60646.

LS 000546



GOLCONDA CORPORATION

39 SOUTH LA SALLE STREET
CHICAGO, ILLINOIS 60603
(312) 372-9500

TO OUR SHAREHOLDERS:

The year 1976 can be characterized as the "turn-around" year for Golconda. Although our profits were unsatisfactory, much progress was made to put the corporation in a good position for 1977. The major factor in depressing profits in 1976 was a further write-off of \$1,400,000 for excess and surplus inventory at the RegO Division.

The accompanying 10K Report gives you financial details of the operation of Golconda. We have continued the practice of 1974 and 1975 in presenting the details in this form. We hope the information will be useful.

The corporation made a profit of \$95,000 on net sales of \$26,809,000. Sales increased 25% over 1975 as the economy improved generally and the market for RegO's LP-gas products rebounded specifically. Increased sales of Anderson Copper and Brass products contributed to the improved results.

Generally, markets for the company's products look favorable in 1977. Whether competitive conditions will permit price increases to offset escalating material and employee costs is not clear at this time, but every effort will be made to maintain and improve profit margins during the year.

Sincerely,

John R. Morrill
President

LS 000547

CAPITAL STOCK

Golconda's common shares are traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: GOL), and its preferred stock is traded on the Pacific Stock Exchange (symbol: GOL.PR). Cerro-Marmon Corporation owns 86.9% of Golconda's common shares and 73.9% of the preferred shares.

The following table presents the quarterly high and low prices of the Golconda common and preferred stock for the past two years as reported by the Pacific Stock Exchange:

	Common		Preferred	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1975				
First Quarter	4 1/8	3	10 1/4	9 3/4
Second Quarter	4 3/4	3 1/8	10 1/2	10
Third Quarter	4 1/8	3	10	8 7/8
Fourth Quarter	3 1/2	3	10	9 1/4
1976				
First Quarter	4 1/4	3	12	10
Second Quarter	4 1/4	3	12 5/8	11 7/8
Third Quarter	4 1/4	3 3/8	13	12 1/4
Fourth Quarter	4 1/4	3 3/8	14 1/2	13

No dividends have been paid on common stock in the past two years. A dividend of \$.25 per share has been paid each quarter on the \$1.00 Cumulative Convertible Preferred Stock.

LS 000548

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended
December 31, 1976

Commission File Number
1-848

GOLCONDA CORPORATION

(Exact name of registrant as specified in its charter)

Idaho
(State or other jurisdiction of
incorporation or organization)

82-0122540
(I.R.S. Employer
Identification Number)

39 South LaSalle Street, Chicago, Illinois
(Address of principal executive offices)

60603
(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
\$1.00 Cumulative Convertible Preferred Stock	Pacific Stock Exchange
Common Stock	Pacific Stock Exchange, Spokane Stock Exchange and Intermountain Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
7% Convertible Subordinated Debentures Due January 1, 1990

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common stock outstanding as of December 31, 1976:
2,774,392 shares without par value

LS 000549

ITEM 1 - BUSINESS

Golconda Corporation (Golconda) presently operates in one principal area of interest -- controls and related equipment. In 1975, Golconda decided to terminate its participation and dispose of its investments in mining companies. This was accomplished in 1976.

In February 1975, Golconda sold its division which was engaged in the design, manufacture and marketing of modular and custom kitchen, cafeteria and restaurant equipment.

In April 1975, Golconda sold the contracts business of a division which was engaged in the engineering and manufacturing of precision components and assemblies for use in aerospace vehicles, military and commercial aircraft and computers.

In May 1975, Golconda discontinued operations of its division which was engaged in recycling brass scrap from the other manufacturing divisions into machining rod and forgings.

Through its RegO Division (RegO), Golconda designs, develops, manufactures and markets: (a) pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; (b) pressure regulators, cylinder valves, manifolds and other control equipment for compressed gases; (c) gas welding and cutting equipment, and (d) pneumatic control devices for the fluid power industry. A common characteristic of RegO products is the control or regulation of the flow of gases either into or out of containers in which the gases are stored, or into piping systems. RegO products are designed for a wide variety of gases and temperature and pressure extremes. Products for use with cryogenic gases are required to withstand temperatures as low as minus 320 degrees F. Depending on the application, RegO equipment is designed to regulate pressure up to 3,000 pounds per square inch.

RegO products are sold nation-wide and, to a limited extent, abroad. Sales are made by a combination of eleven full-time RegO salesmen and five-hundred fifty-one distributors located primarily in the United States. In 1976, the largest customer of this division accounted for approximately 12% of its sales and its five largest customers for about 32% of its sales.

Through its Anderson Copper and Brass Division (Anderson), Golconda manufactures and markets a line of fittings for use with copper tubing. Included in the product line are flared fittings, compression fittings, inverted flare, double compression and brass pipe fittings, as well as garden hose and air hose fittings. A catalog of standard items is issued, but orders are solicited for special items of a related nature. Designed for use with a variety of gases and liquids, the primary application is in the plumbing industry.

Brass fittings manufactured by Anderson are sold on a nation-wide basis by thirty manufacturer's agents who serve approximately two thousand accounts. A limited amount of sales are abroad. In 1976, the largest customer of the division accounted for approximately 5% of its sales and its five largest customers accounted for about 16% of its sales.

LS 000550

Competition

Golconda is subject to intense competition from a large number of firms. Competition varies from older and larger firms having greater financial resources than Golconda to small local and regional competitors which have advantages deriving from proximity to local markets. RegO's principal market is the LP-gas industry, and RegO is a significant supplier of LP-gas equipment.

Backlog

As of December 31, 1976, Golconda's backlog of orders totalled \$5,645,000, all of which are expected to be filled in 1977. At December 31, 1975 backlog amounted to \$3,323,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

The business is directly affected by general business conditions, especially those involving the petroleum and construction industries.

Materials

Raw materials and components used by Golconda in its manufacturing operations are available from more than one supplier, although it may obtain certain parts and materials from a single source and supplier.

Research and Development

The dollar amount of expenditures during the last two fiscal years relating to the development of new products or the improvement of existing products was not material.

Number of Employees

Golconda has approximately 700 full-time employees, of which 190 are in executive, managerial, professional, office and clerical positions and the balance of 510 consists of factory, warehouse and other production related personnel.

Environmental Matters

Golconda is subject to environmental regulation by federal, state and local authorities. There are no known material expenditures required of Golconda for pollution control equipment under applicable environmental laws.

Line of Business Information

Golconda's continuing manufacturing operations are, and have been for the last five years, engaged in only one line of business -- the production and sale of controls and related equipment.

LS 000551

ITEM 2 - GOLCONDA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS, RETAINED
EARNINGS AND ADDITIONAL CONTRIBUTED CAPITAL

The following consolidated statements of operations, retained earnings and additional contributed capital for the years ended December 31, 1976 and 1975 have been examined by certified public accountants whose reports are included elsewhere herein. The consolidated statements for the two years ended November 30, 1973 and the year ended December 31, 1974 are not reported on herein by certified public accountants.

CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands except per share data)

	Year Ended				
	December 31,		November 30,		
	1976	1975	1974(A)	1973	1972
	(Not covered by reports of certified public accountants)				
Continuing operations:					
Net sales from manufacturing operations (B)	\$ 26,809	\$ 21,481	\$ 31,059	\$ 33,011	\$ 26,838
Cost of goods sold (1)	21,618	19,308	24,078	23,540	19,376
Gross profit from manufacturing operations	5,191	2,173	6,981	9,471	7,462
Selling and administrative expenses	5,147	4,808	6,136	5,643	4,349
Interest expense	601	715	1,162	795	930
Interest income	(580)	(492)	(834)	(50)	(74)
Other (income) expense-net(C)	(351)	1,664	(99)	(373)	(478)
	4,817	6,695	6,365	6,015	4,727
Income (loss) before income taxes:					
Manufacturing	374	(4,522)	616	3,456	2,735
Investments(2)	(184)	(434)	10,266	1,668	483
	190	(4,956)	10,882	5,124	3,218
Income tax provision (benefit) (D) and (1):					
Current	(493)	2,694	1,643	1,466	1,077
Deferred	588	(3,070)	1,763	505	316
	95	(376)	3,406	1,971	1,393
Income (loss) from continuing operations	95	(4,580)	7,476	3,153	1,825
Discontinued operations (B):					
Income (loss) from operations			275	48	(119)
Loss on sales of divisions		(735)	(2,190)		
Income (loss) from discontinued operations		(735)	(1,915)	48	(119)
Net income (loss)	95	(5,315)	5,561	3,201	1,706
Net income applicable to preferred stock dividend	381	383	383	385	399
Net income (loss) applicable to common stock	\$ (286)	\$ (5,698)	\$ 5,178	\$ 2,816	\$ 1,307

(Continued)

LS 000552

	Year Ended				
	December 31,		November 30,		
	1976	1975	1974 (A)	1973	1972
	(Not covered by reports of certified public accountants)				
Net income (loss) per common share (F):					
Primary					
From continuing operations -					
Manufacturing	\$.07	\$ (1.00)	\$.14	\$.59	\$.53
Investments	(.03)	(.65)	2.09	.35	.12
	.04	(1.65)	2.23	.94	.65
Discontinued operations	-	(.26)	(.57)	.01	(.04)
	.04	(1.91)	1.66	.95	.61
Less: Preferred dividend requirement	.14	.14			.14
Net income (loss)	<u>\$ (.10)</u>	<u>\$ (2.05)</u>	<u>\$ 1.66</u>	<u>\$.95</u>	<u>\$.47</u>
Fully diluted -	<u>\$ (.10)</u>	<u>\$ (2.05)</u>	<u>\$ 1.52</u>	<u>\$.89</u>	<u>\$.47</u>
Weighted average common shares outstanding	<u>2,781</u>	<u>2,785</u>	<u>2,785</u>	<u>2,785</u>	<u>2,785</u>
Weighted average common shares and, where applicable, equivalents for income per common share calculation:					
Primary	<u>2,781</u>	<u>2,785</u>	<u>3,360</u>	<u>3,365</u>	<u>2,785</u>
Fully diluted			<u>3,776</u>	<u>3,793</u>	

The accompanying notes are an integral part of this statement.

LS 000553

GOLCONDA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	YEAR ENDED			
	December 31, 1976	1975	1974 (A)	November 30, 1973 1972 (Not covered by reports of certified public accountants)
Balance - beginning of period	\$ 18,413,000	\$ 24,111,000	\$ 18,654,000	\$ 15,838,000 \$ 14,531,000
Net income (loss) for the period	95,000	(5,315,000)	5,561,000	3,201,000 1,706,000
Net income for December, 1973 (Note A)			279,000	
Cash dividends paid - preferred	18,508,000 (381,000)	18,796,000 (383,000)	24,494,000 (383,000)	19,039,000 (385,000) 16,237,000 (399,000)
Balance - end of period	\$ 18,127,000	\$ 18,413,000	\$ 24,111,000	\$ 18,654,000 \$ 15,838,000

The accompanying notes are an integral part of this statement.

LS 000554

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ADDITIONAL CONTRIBUTED CAPITAL

	YEAR ENDED			
	December 31,	1974 (A)	1973	November 30,
	1976	1975	1972	1972
Balance - beginning of period	\$ 5,674,000	\$ 5,674,000	\$ 5,674,000	\$ 5,880,000
Purchase and retirement of preferred stock (2,078 shares in 1976, 6,400 shares in 1973 and 10,964 shares in 1972)	(26,000)		(74,000)	(132,000)
Balance - end of period	\$ 5,648,000	\$ 5,674,000	\$ 5,674,000	\$ 5,748,000

The accompanying notes are an integral part of this statement.

LS 000555

GOLCONDA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF OPERATIONS, RETAINED EARNINGS

AND ADDITIONAL CONTRIBUTED CAPITAL

Information with respect to the years ended December 31, 1974, November 30, 1973 and 1972 is not covered by the certified public accountants' reports included elsewhere herein.

In the accompanying financial statements numeric note references are to Notes to Consolidated Financial Statements included elsewhere herein.

Golconda Corporation (Golconda) is a subsidiary of Cerro-Marmon Corporation (Cerro-Marmon) (Cerro Corporation (Cerro) prior to acquisition of Cerro by Cerro-Marmon on February 24, 1976).

(A) CHANGE OF FISCAL YEAR

During 1974, Golconda changed its fiscal year-end to December 31 to conform to the year-end of its parent company. December 1973 operating results, net of taxes of \$47,000, have been credited directly to retained earnings and are summarized below (in thousands):

Net sales:	
Continuing operations	\$ 1,981
Discontinued operations	<u>1,310</u>
	<u>\$ 3,291</u>
Net income (loss):	
Continuing operations -	
Manufacturing	\$ (60)
Investments	<u>382</u>
	<u>322</u>
Discontinued operations	<u>(43)</u>
	<u>\$ 279</u>

(B) DISCONTINUED OPERATIONS

(1) In February 1975, Golconda entered into an agreement to sell the Bastian-Blessing Division (B-B). A \$2,190,000 provision for loss on the sale, comprised of the write-off of \$1,240,000 of goodwill applicable to B-B and a \$950,000 loss on disposal of net assets, net of a \$950,000 tax benefit, was reflected in the financial statements for the year ended December 31, 1974. The final agreed cash price amounted to \$3,850,000 and resulted in an actual loss of \$2,406,000. The additional loss of \$216,000, net of a tax benefit of \$146,000, was recorded in 1975.

(2) In April 1975, Golconda entered into an agreement to sell the Pioneer Astro Industries Division (PAI) contracts business. The final agreed cash price of \$1,184,000 resulted in a \$519,000 loss, net of a tax benefit of \$487,000. The loss included estimated liabilities resulting principally from the buyer's default on a building lease. Golconda has instituted legal proceedings in an attempt to recover losses resulting from the default.

LS 000556

In the opinion of management, although Golconda has a proper legal position, collection of a judgment is doubtful; accordingly, the total amount of the lease obligation through September 1977 was recorded as a loss in 1975.

(3) Following is an analysis of the income (loss) of discontinued businesses and related loss on disposal (in thousands):

	Year Ended			
	December 31,		November 30,	
	1975	1974	1973	1972
Income (loss) of discontinued operations:				
B-B		\$ 507	\$ 166	\$ (13)
Income taxes (benefit)		259	69	(6)
		<u>248</u>	<u>97</u>	<u>(7)</u>
PAI contracts business		54	(99)	(223)
Income taxes (benefit)		27	(50)	(111)
		<u>27</u>	<u>(49)</u>	<u>(112)</u>
		<u>275</u>	<u>48</u>	<u>(119)</u>
(Loss) on sales of divisions				
B-B (net of tax benefits of \$146 in 1975 and \$950 in 1974)	\$ (216)	(950)		
Goodwill written off (no tax benefit)		(1,240)		
PAI contracts business (net of tax benefit of \$487)		(519)		
		<u>(735)</u>	<u>(2,190)</u>	
	<u>\$ (735)</u>	<u>\$ (1,915)</u>	<u>\$ 48</u>	<u>\$ (119)</u>

In determining income (loss) of the discontinued B-B operations, B-B was charged with a portion of corporate administrative expenses which were charged ratably to B-B and which were not expected to continue and with interest expense which would have been eliminated and/or earned through the use of the proceeds of the sale.

In determining income (loss) of the discontinued PAI contracts business, PAI contracts business was charged with interest expense which would have been earned through the use of the proceeds of the sale. Corporate administrative expenses were not allocated because such expenses were not expected to be eliminated.

LS 000557

(C) OTHER TERMINATIONS AND DISPOSALS

(1) In 1975, Golconda ceased operations at its Golconda Metals Division (GMD) plant in Alsip, Illinois. A \$1,178,000 provision for losses incurred and expected to be incurred in connection with the shut down of this facility was reflected in 1975 in Other Income and Expense in the Consolidated Statement of Operations.

The disposal of the GMD properties was completed in 1976 and resulted in an additional loss of \$59,000 which is included in Other Income and Expense in the Consolidated Statement of Operations.

(2) During 1975, management decided to terminate Golconda's participation in the various foreign joint ventures for manufacturing and distributing liquefied petroleum gas products. A \$729,000 loss resulting from the recognition of liabilities related to the terminations and from the write-downs of Golconda's advances to and investments in these ventures was reflected in Other Income and Expense in the Consolidated Statement of Operations.

(3) In December 1976, Golconda sold its investments in mining stocks and related assets to one of Golconda's directors for \$175,000. The net book value of the assets sold was \$310,000, including mining stock investments stated at \$250,000, resulting in a loss in 1976 of \$135,000. The mining stocks were originally purchased for \$788,000 and were subsequently written down to an estimated realizable value of \$250,000 in 1975. The write-down was made because, in the opinion of management, the value of assets underlying these mining stocks had become permanently impaired, principally as a result of the cessation of exploration and development at the Alice Consolidated project which comprised 51% of total mining stock investments. (See Note 2 of Notes to Consolidated Financial Statements.)

During the past two years, several attempts had been made to sell these mining investments. The transaction was approved by Golconda's board of directors, with the acquiring director abstaining from voting.

LS 000558

(D) INCOME TAXES

Golconda's effective income tax rates for income (loss) from continuing operations are different from the Federal statutory rates. The following table analyzes these differences:

	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>
Statutory rates - Federal	48.0%	(48.0)%	48.0%	48.0%	48.0%
Impact of capital gains rates on investment income and losses		2.0	(17.2)	(6.2)	(3.3)
Impact of ordinary rates on investment income deferred until 1975 (a)		30.7			
Investment tax credits	(3.7)	.3	(.4)	(2.9)	(.7)
Profits of Domestic International Sales Corporation	(3.2)	.2	(1.4)	(2.0)	(1.1)
State taxes and other	<u>8.9</u>	<u>7.2</u>	<u>2.3</u>	<u>1.6</u>	<u>.4</u>
Effective income tax rate	<u>50.0%</u>	<u>(7.6)%</u>	<u>31.3%</u>	<u>38.5%</u>	<u>43.3%</u>

(a) Because of the substantial tax losses incurred in 1975, excluding deferred investment gains, the previously deferred investment earnings were effectively taxed at the 48% statutory rate rather than the 30% capital gains rate provided in prior years.

Tax law allows or requires the determination of taxable income in a manner different from generally accepted accounting principles. The table below reconciles earnings of continuing operations per the accompanying financial statements to currently payable taxes.

LS 000559

	(In Thousands)				
	1976	1975	1974	1973	1972
Income (loss) from continuing operations before income taxes	\$ 190	\$ (4,956)	\$ 10,882	\$ 5,124	\$ 3,218
Investment gains taxable in different periods due to use of installment sales tax treatment (1975 and 1974) and specific identification costing		8,453	(6,709)	(529)	(610)
Excess of tax over book depreciation	(145)	(200)	(308)	(310)	(226)
Commissions on Domestic International Sales Corporation			195	(195)	(105)
Losses on write-down of assets to estimated realizable value included in taxable income in different periods as realized:					
Gauge		374	250		
GMD	(457)	360	234		
Investment in and advances to foreign joint ventures	(98)	200			
Mining investments	(538)	363	175		
Inventory reserves	(717)	750	900		
Product liability reserves	166				
Other	(183)	298	(355)	(284)	203
Current taxable income (loss)	<u>\$ (1,782)</u>	<u>\$ 5,642</u>	<u>\$ 5,264</u>	<u>\$ 3,806</u>	<u>\$ 2,480</u>
Current income tax provision (benefit)	<u>\$ (493)</u>	<u>\$ 2,694</u>	<u>\$ 1,643</u>	<u>\$ 1,466</u>	<u>\$ 1,077</u>

The 1976 current income tax benefit and the deferred income tax provision (at an effective rate of 50%) have each been decreased by \$380,000, with no effect on net income, to reflect the 1975 federal income tax return as filed.

LS 000560

The provision (benefit) for income taxes consists of:

		(In Thousands)				
		1976	1975	1974	1973	1972
Current:						
Federal	\$	(426)	\$ 2,061	\$ 1,818	\$ 1,316	\$ 892
State		(67)	-	111	169	68
Deferred		588	(3,070)	813	505	316
	\$	95	\$ (1,009)	\$ 2,742	\$ 1,990	\$ 1,276
Allocated to:						
Continuing Operations	\$	95	\$ (376)	\$ 3,406	\$ 1,971	\$ 1,393
Discontinued operations			(633)	(664)	19	(117)
	\$	95	\$ (1,009)	\$ 2,742	\$ 1,990	\$ 1,276

See Note 1 - INCOME TAXES

(E) INVENTORY

In 1976 management completed a comprehensive review and evaluation of inventory for obsolete and slow-moving items arising from continued depressed industry conditions and determined that the inventory usage levels utilized in computing the reserve for obsolescence should range from one to two years. Prior to 1976, inventory quantities in excess of usage levels ranging from one to four years were the basis for evaluating obsolescence. The effect of this change in estimate was to decrease net income by \$245,000 or \$.09 per common share in 1976. (See Note 1 of Notes to Consolidated Financial Statements.)

(F) INCOME (LOSS) PER SHARE

Primary income (loss) per share for 1976, 1975 and 1972 is based on the weighted average number of common shares outstanding during each period. Primary income per share for 1974 and 1973 was computed by dividing net income by the average number of common and common equivalent (preferred stock) shares outstanding. For the years 1974 and 1973, such preferred stock had a dilutive effect on income per share, whereas such stock had an anti-dilutive effect for 1976, 1975 and 1972. For purposes of determining primary income per share in 1976 for investment income, taxes were allocated at an effective rate of 48%.

Fully diluted income per share was computed assuming that the average number of common and common equivalent shares outstanding were further increased by conversion as of the beginning of each year of the convertible debentures outstanding (416,000 shares in 1974, 428,000 shares in 1973 and 439,000 shares in 1972). The convertible debentures are not reflected in 1976 and 1975 because they are anti-dilutive in those years.

Options and warrants have not been reflected in the computations because they are anti-dilutive.

LS 000561

(G) RELATED PARTY TRANSACTIONS

Transactions between Golconda and its parent in 1976 and 1975 include the following at prices determined by the parties (in thousands):

	<u>1976</u>	<u>1975</u>
Inventory purchases (35% and 45% of total purchases in 1976 and 1975, respectively)	\$ 4,327	\$ 3,047
Sales	19	19
Management fee	115	
Interest income		64

Golconda does not have any other material transactions with its parent or other affiliated companies other than certain expenses paid by its parent and charged to Golconda which are directly attributable to Golconda. The parent did not charge Golconda with a management fee in 1975. The management fee in 1976 is in return for various services, including general management, insurance and pension plan matters, legal and taxation matters and other similar matters which its parent provides to its divisions, subsidiaries and affiliates.

See Note 8 of Notes to Consolidated Financial Statements - SUBSEQUENT EVENTS.

LS 000562

MANAGEMENT ANALYSIS OF VARIATIONS
IN CONTINUING OPERATIONS

Manufacturing

1975 vs. 1974:

Net sales decreased 31% in 1975 due principally to lost volume. This lower volume is attributed to depressed conditions in the liquid petroleum gas (LP-gas) industry and an indeterminable loss in market share to competitors. The dollar decrease in sales would have been greater except for a small increase in selling prices.

The decrease in sales volume, increased costs of material and labor, and increased inventory and obsolescence adjustments caused gross profit to decrease as a percentage of sales from 22% in 1974 to 10% in 1975.

Selling and administrative expense decreased 22% due principally to decreased personnel (\$631,000), decreased sales commissions due to lower volume (\$132,000) and reclassifications of certain freight charges.

Interest expense decreased by \$447,000 in 1975 primarily as a result of the repayment of a bank note in January 1975.

Interest income decreased \$342,000 in 1975 primarily as a result of the collection of a note receivable in January 1975.

Earnings from continuing operations were severely affected by reduced sales volume, provisions for slow-moving and obsolete inventory, and special provisions and losses on certain transactions which are included in Other Income and Expense in the financial statements (See Note C).

1976 vs. 1975:

Net sales increased 25% in 1976 due principally to price increases as well as increased unit sales volume and better sales mix.

Gross profit increased as a percentage of sales from 10% in 1975 to 19% in 1976. This increase was due primarily to increased selling prices and better sales mix to higher margin LP-gas equipment.

Selling and administrative expenses increased 7% due principally to increased selling expenses (\$152,000), increased employee benefit expenses (\$124,000), increased product liability insurance expense (\$161,000) and the addition of the management fee (\$115,000) offset by decreased outside professional services including legal and data processing.

Interest expense decreased by \$114,000 in 1976 as a result of the decrease in long-term debt. 1975 also included \$60,000 of interest related to a bank note repaid in January 1975.

Interest income increased \$88,000 due principally to the increase in marketable securities in 1976 offset by a slight interest rate decrease. Interest income in 1976 also included \$55,000 from a note receivable related to the B-B sale which was collected in April 1976. 1975 included \$64,000 of interest related to a note receivable collected in January 1975.

LS 000563

Other (income) expense-net reflected income of \$351,000 in 1976 compared to a net expense of \$1,664,000 in 1975 for a net change of \$2,015,000. The GMD loss of \$1,178,000 and the \$729,000 loss related to the foreign joint ventures in 1975 accounted for most of the change between years.

Fourth quarter results:

Fourth quarter 1976 sales of \$7,834,000 were \$1,780,000 or 29% better than sales in the third quarter and \$2,413,000 or 45% better than fourth quarter of 1975. The increase between the third and fourth quarter of 1976 was due principally to unit sales volume resulting from improved economic conditions in the LP-gas industry creating increased demand. The increase between 1976 and 1975 was due both to price increases and unit sales volume.

Net income in the fourth quarter of 1976 was \$265,000 (\$.06 per share). Significant year-end adjustments affecting the fourth quarter results included inventory obsolescence write-downs of \$195,000, an additional \$166,000 provision for product liability losses, a \$55,000 loss on the sale of a product line and an additional \$40,000 accrual for accident and health expenses.

Net loss, as restated, for the fourth quarter of 1975 was \$2,240,000 (\$.84 per share). The loss was restated to increase the tax benefit in the fourth quarter and decrease the tax benefit in the first three quarters of 1975 by \$1,266,000 or \$.45 per share. The loss in the fourth quarter of 1975 was substantially higher due to inventory provisions and significant year end adjustments including:

1. An additional amount of \$150,000 provided for the estimated loss on disposal of the Golconda Metals Division assets.
2. A \$363,000 write-down of mining stock investments.
3. A \$596,000 loss from the expenses and write-downs related to the termination of participation in foreign joint ventures.
4. A \$78,000 loss on the sale of the oil-less compressor line.
5. An additional amount of \$140,000 provided for estimated loss on the disposal of the gauge line inventory and equipment.

The fourth quarter 1975 loss also included a \$188,000 loss from discontinued operations.

Investments

Income through 1974 reflects the gains from sales of Hecla common stock and expenses required to maintain the Golconda Mining Corporation facilities.

In 1975 the loss represents a write-down of mining stock investments (See Note 2), expenses for maintaining the Golconda Mining Corporation facilities, and an additional income tax provision (See Note D).

In 1976 the loss represents expenses for maintaining the Golconda Mining Corporation facilities as well as the loss resulting from the sale of these facilities and the mining stock investments. (See Notes C and 2).

LS 000564

ITEM 3 - PROPERTY

The principal plants operated by Golconda are listed below with their location, square footage, and the principal products manufactured at each location:

<u>Division</u>	<u>Location</u>	<u>Floor Area (Square Feet)</u>	<u>Acreage (Where Appl.)</u>	<u>Principal Products</u>	<u>Owned or Leased</u>
RegO	Chicago Illinois	320,000	19.2	Valves and controls	Owned (1)
	Upper Saddle River, N.J. and Chicago, Illinois	24,000		Distribu- tion center	Leased (2)
Anderson	Alsip, Illinois	29,000	1.7	Brass fittings	Owned

(1) See Note 3 of Notes to Consolidated Financial Statements concerning a mortgage on this plant.

(2) Comprised of two structures, one owned and located in Chicago, Illinois adjacent to the RegO manufacturing facilities, and the other leased for an annual rental of \$29,400 and located in Upper Saddle River, New Jersey.

RegO operations are conducted in five adjacent buildings. Manufacturing operations are conducted in a single story brick structure. Two of the remaining four buildings which are used for storage and warehousing of raw material, semi-finished and finished parts, are of brick construction, and two are metal frame. In total, 213,000 square feet are utilized for manufacturing, 39,000 square feet are used for office space and 68,000 square feet are used for storage and warehousing. Manufacturing machinery consists of light to medium metal cutting and processing equipment.

Anderson's manufacturing facilities consist of a one-story expandable concrete and steel building. Space is divided into 27,000 square feet for manufacturing and related facilities and 2,000 square feet for office functions.

Golconda owns all of the significant machinery and equipment used in its operations and considers that its plants and equipment, whether owned or leased, are well maintained, adequately insured, and with normal additions and improvements, adequate for its present and foreseeable requirements.

ITEM 4 - PARENTS AND SUBSIDIARIES

Parent

Cerro-Marmon Corporation, a Delaware corporation, a subsidiary of GL Corporation, located at 39 South LaSalle Street, Chicago, Illinois, 60603, owns 73.9% of the Golconda preferred stock and 86.9% of the Golconda common

LS 000565

stock, constituting 85.3% of the outstanding voting stock of Golconda, and may be deemed a parent of Golconda.

Subsidiaries

Golconda Corporation has two subsidiaries as of December 31, 1976 which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

ITEM 5 - PENDING LEGAL PROCEEDINGS

See Note 7 of Notes to Consolidated Financial Statements.

Except for the litigation discussed at Note 7, there are no other pending material legal proceedings, other than ordinary routine litigation incidental to the business, to which Golconda or any of its subsidiaries has become a party or of which any of their property has become the subject.

ITEM 6 - INCREASES AND DECREASES IN OUTSTANDING SECURITIES

(A) Cumulative Convertible Preferred Stock (Par value \$1.00)	
Balance December 31, 1975	383,157
Conversion to common shares	(177)
Purchased by Golconda throughout the year	<u>(2,078)</u>
Balance December 31, 1976	<u>380,902</u>
(B) Common Stock (No par value)	
Balance December 31, 1975	2,785,595
Conversion of preferred stock	265
Purchased by Golconda throughout the year	<u>(11,468)</u>
Balance December 31, 1976	<u>2,774,392</u>
(C) 7% Convertible Subordinated Debentures due January 1, 1990	
Balance December 31, 1975	\$4,164,000
Purchased by Golconda throughout the year	<u>(188,000)</u>
Balance December 31, 1976	<u>\$3,976,000</u>
(D) Warrants to Purchase Common Stock @ \$14.51 per share, expiring January 15, 1979	
Balance December 31, 1976 and 1975	<u>292,467</u>

LS 000566

ITEM 7 - APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

<u>Title of Class</u>	<u>Number of record holders as of December 31, 1976</u>
\$1.00 Cumulative Convertible Preferred Stock, \$1.00 par value	634
Common Stock, no par value	1,312
7% Convertible Subordinated Debentures, due January 1, 1990	680
Warrants expiring January 15, 1979 (Each to purchase one share of common stock at \$14.51 per share)	4

ITEM 8 - EXECUTIVE OFFICERS OF THE REGISTRANT

All officers are elected by the Board of Directors and serve at the pleasure of the Board. The listing immediately following this paragraph shows the position with Golconda of each executive officer; his age; and an account of his business experience during the past five years, including the time he has served in his present position. There is no family relationship between any of the executive officers of Golconda.

Gordon Paul Smith (60)	Chairman of the Board of Directors since June 1974. President and Chief Executive Officer (February 1972 to June 1974). Chairman of the Executive Committee in 1971 and a Director since September 1970.
John R. Morrill (60)	President and Chief Executive Officer since May 1975 and a Director since June 1975. Prior to joining Golconda, Mr. Morrill was Senior Vice President with Automation Industries (1971-1975).
Robert C. Gluth (52)	Vice President and Director since December 1975. Vice President of The Marmon Group, Inc. (Michigan) from February 1970 to September 1976; Executive Vice President of The Marmon Group, Inc. (Michigan) since September 1976; Vice President of GL Corporation since 1972; Vice President of Cerro Corporation from May 1975 to February 1976; Vice President of Cerro-Marmon Corporation from February 1976 to September 1976; Executive Vice President of Cerro-Marmon Corporation since September 1976; and Vice President of Hammond Corporation since December 1976; Director of Cerro Corporation from June 1975 to February 1976; Director of Cerro-Marmon Corporation

LS 000567

since November 1975; and Director of Hammond Corporation since November 1976.

Thomas L. Seifert (36)

Secretary and General Counsel since December 1975.

Associate General Counsel of Cerro Corporation from October 1975 to February 1976; Assistant Secretary of Cerro Corporation from December 1975 to February 1976; Legal Counsel of Cerro-Marmon Corporation from February 1976; Legal Counsel and Secretary of Cerro-Marmon since May 1976. Prior to joining Cerro, Mr. Seifert was Associate General Counsel for Canteen Corporation (April 1973 to October 1975) and an attorney with Standard Oil Company (December 1970 to April 1973).

David R. Nomura (33)

Treasurer since October 1975.

Prior to joining Golconda, Mr. Nomura was an Audit Manager with the firm of Coopers & Lybrand with which he was employed since June 1965.

Charles B. Cranford (39)

Vice President-Controller since January 1974.

Controller of both the Corporation and RegO Division since January 1973. Prior to joining Golconda, he served as division controller and in other accounting assignments for the AMF Corporation.

Donald V. Ytterberg (50)

Vice President since December 1972.

Vice President of the Anderson Copper and Brass Company when it was acquired by Golconda in July 1972 and was named President of Anderson in January 1974.

ITEM 9 - INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article VI, Section 1, of the ByLaws of Golconda entitled "Indemnification of Directors and Officers" reads as follows:

"Any present or future director or officer, or the executor, administrator or other legal representative of any such director or officer, shall be indemnified by the corporation against reasonable costs, expenses (exclusive of any amount paid to the corporation in settlement), judgments, fines, amounts paid in settlement of any action, suit or proceedings, and counsel fees paid or incurred in connection with any action, suit or proceeding to which legal representative may hereafter be made a party by reason of his being or having been such director or officer; provided, (1) said action, suit or proceeding shall be prosecuted against such director or officer or against his executor, administrator or other legal representative to

LS 000568

final determination, and it shall not be finally adjudged in said action, suit or proceedings that he had been derelict in the performance of his duties as such director or officer, or (2) said action, suit or proceeding shall not be settled or otherwise terminated as against such director or officer or his executor, administrator or other legal representative without a final determination on the merits, and it shall be determined that such director or officer had not in any substantial way been derelict in the performance of his duties as charged in such action, suit or proceeding, such determination to be made by a majority of the members of the board of directors who were not parties to such action, suit or proceedings, though less than a quorum, or by any one or more disinterested persons to whom the question may be referred by the board of directors. For purposes of the preceding sentence: (a) "action, suit or proceeding" shall include every action, suit or proceeding, civil, criminal or other; (b) the right of indemnification conferred thereby shall extend to any threatened action, suit or proceeding and the failure to institute it shall be deemed its final determination; (c) the termination of an action, suit or proceeding by a plea of nolo contendere or other like plea shall not constitute a final determination on the merits; (d) a judgment of conviction in any criminal action, suit or proceeding shall not constitute a determination that the person so convicted has been derelict in the performance of his duties if it is determined by a majority of the members of the board of directors who were not a party thereto, though less than a quorum, or by one or more disinterested persons in the manner provided in the preceding sentence that the person so convicted acted in good faith, for a purpose which he reasonably believed to be in the best interests of the company and that he had no reasonable cause to believe that his conduct was unlawful; and (e) advances may be made by the company against costs, expenses and fees as, and upon the terms, determined by the board of directors. The corporation shall indemnify an employee who is not an officer to the same extent that it does an officer. The foregoing right of indemnification shall not be exclusive of any other rights to which any director or officer may be entitled as a matter of law or which may be lawfully granted to him; and the indemnification hereby granted by the company shall be in addition to and not in restriction or limitation of any other privilege or power which the corporation may lawfully exercise with respect to the indemnification or reimbursement of directors, officers or employees."

Golconda maintained directors' and officers' liability insurance in effect until September 30, 1976. As of October 1, 1976 Golconda is acting as a self-insurer with respect to these matters.

LS 000569

ITEM 10

GOLCONDA CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1976 and 1975

Reports of Certified Public Accountants	<u>PAGE</u> F-2 & F-3
Financial Statements:	
Consolidated Balance Sheet	F-4 & F-5
Consolidated Statement of Operations	Item 2
Consolidated Statement of Retained Earnings	Item 2
Consolidated Statement of Additional Contributed Capital	Item 2
Notes to Consolidated Statements of Operations, Retained Earnings and Additional Contributed Capital	Item 2
Consolidated Statement of Changes in Financial Position	F-6 & F-7
Notes to Consolidated Financial Statements	F-8
Schedules:	
V - Property, Plant and Equipment	F-14
VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment	F-15
XII - Valuation and Qualifying Accounts and Reserves	F-16
XVI - Supplementary Income Statement Information	F-17
Exhibit I - Calculation of Income Per Share	F-18 & F-19

Schedules not included above are omitted as either not applicable or not required or the required information is included in the financial statements or the notes thereto.

The individual financial statements and schedules of the Registrant (not consolidated) are omitted because the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed are totally-held subsidiaries and, in the aggregate, do not have indebtedness to any person, including the Registrant and its consolidated subsidiaries, in amounts which together exceed 5% of the total assets as shown by the most recent year-end consolidated balance sheet.

LS 000570

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Stockholders
Golconda Corporation

We have examined the consolidated balance sheet of Golconda Corporation at December 31, 1976 and the related consolidated statements of operations, retained earnings, additional contributed capital and changes in financial position for the year then ended, together with the supporting schedules listed in the accompanying index to consolidated financial statements. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note G, Golconda Corporation purchases a substantial portion of its material inventory from its parent at prices determined by the parties.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Golconda Corporation at December 31, 1976 and the consolidated results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 9, 1977

LS 000571

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and
Board of Directors

Golconda Corporation

In our opinion, the consolidated financial statements included in the accompanying index present fairly the financial position of Golconda Corporation (a subsidiary of Cerro-Marmon Corporation) and its subsidiaries at December 31, 1975, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Chicago, Illinois
February 2, 1976

LS 000572

F-3

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 1976 and 1975

<u>CURRENT ASSETS</u>	<u>ASSETS</u>	
	<u>1976</u>	<u>1975</u>
Cash	\$ 123,000	\$ 26,000
Certificates of deposit		3,000,000
Commercial paper, at cost which approximates market	11,100,000	4,550,000
Notes and accounts receivable less allowance for doubtful receivables (1976 - \$130,000; 1975 - \$291,000) (Schedule XII)	4,504,000	5,178,000
Inventories (Note 1) (Schedule XII)	9,215,000	10,775,000
Income taxes (Note 1):		
Refund receivable	937,000	462,000
Deferred	755,000	1,390,000
Prepaid expenses and sundry deposits	23,000	169,000
Investments held for sale - at estimated realizable value (Notes 2 and C)		250,000
Net assets of businesses held for sale-at estimated realizable value (Notes 6 and C)		715,000
Total current assets	<u>26,657,000</u>	<u>26,515,000</u>
<u>PROPERTY, PLANT AND EQUIPMENT</u> - at cost (Notes 1 and 3) (Schedules V and VI)		
Buildings and improvements	2,995,000	2,947,000
Machinery, equipment and tools	6,979,000	7,089,000
Office furniture and fixtures	250,000	256,000
	<u>10,224,000</u>	<u>10,292,000</u>
Less accumulated depreciation	<u>(5,849,000)</u>	<u>(5,680,000)</u>
	4,375,000	4,612,000
Land	598,000	598,000
	<u>4,973,000</u>	<u>5,210,000</u>
<u>OTHER ASSETS</u>		
Excess of cost over underlying equity in net assets acquired (Notes 1 and B)	3,135,000	3,135,000
Deferred debt expense - less accumulated amortization on the bonds outstanding method (1976 - \$337,000; 1975 - \$295,000)	294,000	336,000
Sundry	229,000	87,000
	<u>3,658,000</u>	<u>3,558,000</u>
	<u>\$ 35,288,000</u>	<u>\$ 35,283,000</u>

The accompanying notes are an integral part of this statement.

LS 000573

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 1976 and 1975

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>CURRENT LIABILITIES</u>	<u>1976</u>	<u>1975</u>
Current maturities of long-term debt (Note 3)	\$ 98,000	\$ 89,000
Accounts payable	1,326,000	1,529,000
Accounts payable - parent	1,098,000	741,000
Accrued liabilities:		
Salaries and wages	133,000	160,000
Property and payroll taxes	246,000	245,000
Employee benefits	661,000	122,000
Other	426,000	402,000
Total current liabilities	<u>3,988,000</u>	<u>3,288,000</u>
<u>LONG-TERM DEBT</u> (Note 3)	<u>6,421,000</u>	<u>6,706,000</u>
<u>DEFERRED INCOME TAXES</u> (Note 1)	<u>518,000</u>	<u>565,000</u>
<u>CONTINGENT LIABILITIES</u> (Notes 7 and 8)		
<u>STOCKHOLDERS' EQUITY</u> (Notes 3 and 5):		
Capital stock -		
Preferred (redemption and liquidation value - 1976 - \$14,284,000 and 1975 - \$14,368,000)	381,000	383,000
Common	774,000	774,000
Additional contributed capital	5,648,000	5,674,000
Retained earnings	<u>18,127,000</u>	<u>18,413,000</u>
	24,930,000	25,244,000
Less common stock in treasury - at cost	<u>569,000</u>	<u>520,000</u>
Total stockholders' equity	<u>24,361,000</u>	<u>24,724,000</u>
	<u>\$ 35,288,000</u>	<u>\$ 35,283,000</u>

The accompanying notes are an integral part of this statement.

LS 000574

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ended December 31, 1976 and 1975

	<u>1976</u>	<u>1975</u>
SOURCES OF WORKING CAPITAL		
From operations:		
Earnings (loss) from continuing operations \$	95,000	\$ (4,580,000)
Loss from discontinued operations		(735,000)
Items not (providing) or requiring outlay of working capital in the current year:		
Depreciation	715,000	936,000
Amortization of deferred expenses	42,000	74,000
Deferred income taxes	(47,000)	(399,000)
Reduction in carrying value of investments		363,000
Writedown of advances to and investments in foreign joint ventures		227,000
Other		20,000
Working capital provided from (used in) operations	805,000	(4,094,000)
Reduction of long-term investments		250,000
Net fixed assets sold or retired:		
Discontinued operations		747,000
Golconda Metals Division		960,000
Net fixed assets transferred to assets held for sale:		
Golconda Metals Division		1,249,000
Gauge assets		250,000
Total sources of working capital	<u>805,000</u>	<u>(638,000)</u>
USES OF WORKING CAPITAL		
Net additions to property, plant and equipment	478,000	456,000
Reduction of long-term debt	285,000	352,000
Preferred cash dividends	381,000	383,000
Repurchase of capital stock	77,000	
Sundry	142,000	17,000
Total uses of working capital	<u>1,363,000</u>	<u>1,208,000</u>
DECREASE IN WORKING CAPITAL	<u>\$ (558,000)</u>	<u>\$ (1,846,000)</u>

(continued)

LS 000575

GOLCONDA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ended December 31, 1976 and 1975

	<u>1976</u>	<u>1975</u>
INCREASES (DECREASES) IN ELEMENTS OF WORKING CAPITAL		
Cash and certificates of deposit	\$ (2,903,000)	\$ 1,199,000
Commercial paper	6,550,000	4,550,000
Notes and accounts receivable - net	(674,000)	(9,620,000)
Inventories	(1,560,000)	(6,743,000)
Income taxes	(160,000)	1,852,000
Prepaid expenses and sundry deposits	(146,000)	87,000
Investments held for sale	(250,000)	250,000
Net assets of businesses held for sale	<u>(715,000)</u>	<u>(3,945,000)</u>
Net increase (decrease) in current assets	<u>142,000</u>	<u>(12,370,000)</u>
Current maturities of long-term debt	9,000	9,000
Notes payable		(8,000,000)
Accounts payable	154,000	(82,000)
Income taxes		(2,556,000)
Accrued liabilities	<u>537,000</u>	<u>105,000</u>
Net increase (decrease) in current liabilities	<u>700,000</u>	<u>(10,524,000)</u>
DECREASE IN WORKING CAPITAL	<u>\$ (558,000)</u>	<u>\$ (1,846,000)</u>

The accompanying notes are an integral part of this statement.

LS 000576

GOLCONDA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1976 and 1975

In the accompanying financial statements, alphabetic note references are to Notes to Consolidated Statements of Operations, Retained Earnings and Additional Contributed Capital included elsewhere herein.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Golconda is a subsidiary of Cerro-Marmon Corporation (Cerro Corporation prior to acquisition of Cerro by Cerro-Marmon on February 24, 1976).

CONSOLIDATION - All subsidiaries are consolidated and significant intercompany transactions have been eliminated.

INVENTORIES - Inventories are stated at the lower of cost (determined by the first-in, first-out method) or market. Inventories used in the computation of cost of goods sold are comprised of the following (in thousands):

	<u>1976</u>	<u>1975</u>	<u>1974</u>
Finished goods and work in process	\$ 8,118	\$ 9,134	\$ 14,685
Raw materials and supplies	<u>1,097</u>	<u>1,641</u>	<u>2,833</u>
Total	<u>\$ 9,215</u>	<u>\$ 10,775</u>	<u>\$ 17,518</u>

DEPRECIATION - For financial reporting purposes, Golconda computes depreciation principally on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in determining depreciation are as follows:

<u>Description</u>	<u>Useful Lives</u>
Buildings and improvements	5 to 50 years
Machinery, equipment and tools	2 to 20 years
Office furniture and fixtures	5 to 20 years

Maintenance and repairs are charged to operations as incurred. Betterments and major renewals are capitalized. Upon sale or disposition of properties, the asset account is relieved of the cost, the accumulated depreciation account is relieved of the depreciation taken prior to the sale and any resultant gain or loss is reflected in operations.

INCOME TAXES - Provision is made for deferred taxes which arise primarily from the use for tax purposes of accelerated depreciation methods and the installment sales method in 1975 for investment income. Deferred income tax debits arise from provisions not currently deductible for tax purposes, principally related to inventory and net assets of businesses held for sale. Available investment tax credits are accounted for under the "flowthrough" method. In 1976 the amount available was \$42,000, but recapture amounted to \$35,000, resulting in a net investment tax credit of \$7,000. In 1975 the amount available was \$46,000, but recapture amounted to \$61,000, resulting

LS 000577

in a net investment tax credit recapture of \$15,000. The investment tax credit and the effect of the use of a Domestic International Sales Corporation resulted in Federal income tax provision (benefit) reductions of \$13,000 and \$25,000 in 1976 and 1975, respectively. Investment tax credits for 1974, 1973 and 1972 were \$43,000, \$149,000 and \$22,000, respectively.

Effective June 3, 1974, Golconda was included in the consolidated Federal tax return of Cerro Corporation and since February 25, 1976 has been included in the consolidated Federal tax return of GL Corporation, the parent of Cerro-Marmon Corporation. Under the terms of Golconda's tax sharing agreement with its parent, Federal income taxes are computed as if Golconda and its subsidiaries continued to file a separate consolidated return and liabilities are remitted to, and benefits and refunds obtained from its parent on this basis. State income tax returns are filed on an individual company basis.

EXCESS OF COST OVER UNDERLYING EQUITY IN NET ASSETS ACQUIRED - The amount shown on the balance sheet arose prior to fiscal year 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

PENSION PLANS - Unfunded past service costs are accrued and funded on a thirty-year basis; current costs are accrued and funded on a current basis.

Note 2: INVESTMENTS

At December 31, 1975, investments were comprised of the capital stock of mining companies as follows (in thousands):

	<u>Balance</u>	<u>Quoted Market Price (a)</u>
Alice Consolidated Mines, Inc. (54% owned) (4,308,020 shares)	\$ 399	\$ 819
Other	389	255
Write-down to estimated realizable value (b)	<u>(538)</u>	<u></u>
	<u>\$ 250</u>	<u>\$ 1,074</u>

(a) The quoted market prices of the various stocks resulted from limited and very small share quantity transactions and management believes they were not representative for large block and controlling interest transactions.

(b) It was Golconda's intention to dispose of these investments, and accordingly, their carrying value was reduced to management's estimate of realizable value.

The primary asset of Alice Consolidated Mines, Inc. (Alice), 51% of Golconda's total mining stock investments, was 1,109 acres of mining properties which, until June 1975, had been undergoing exploration and development by

LS 000578

another mining company under an agreement in which Golconda also participated. All exploration and development of these properties had ceased due to lack of sufficient mineralization to warrant further development effort. Management believed that the value of Alice had been permanently impaired by the cessation of such exploration and development.

In December, 1976 Golconda sold its investments in mining stocks and related assets for \$175,000. (See Note C of Notes to Consolidated Statement of Operations).

Losses, before income taxes, from investments for the two years ended December 31, 1976 are summarized below (in thousands):

	<u>1976</u>	<u>1975</u>
Expenses, principally for administration of properties	\$ 49	\$ 71
Loss on sale of mining stocks and related assets	135	
Provision for decline in value of certain investments		<u>363</u>
Investment loss before income taxes	<u>\$ 184</u>	<u>\$ 434</u>

Note 3: LONG-TERM DEBT

Long-term debt at December 31, 1976 and 1975 is comprised of the following (in thousands):

	<u>1976</u>	<u>1975</u>
7% convertible subordinated debentures, due January 1, 1990	\$ 3,976	\$ 4,164
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	<u>2,543</u>	<u>2,631</u>
	6,519	6,795
Less current maturities	<u>98</u>	<u>89</u>
	<u>\$ 6,421</u>	<u>\$ 6,706</u>

The net book value of the property subject to the mortgage at December 31, 1976 was \$1,014,000.

LS 000579

The aggregate amounts of long-term debt maturing in each of the five years subsequent to December 31, 1976 are as follows:

1977	\$ 98,000
1978	108,000
1979	395,000
1980	457,000
1981	471,000

The 7% convertible subordinated debenture indenture agreement (dated January 1, 1970 for \$5,000,000) contains certain covenants, which provide, among other things, that Golconda:

Will maintain consolidated net working capital of \$10,000,000. At December 31, 1976, consolidated net working capital was \$22,669,000.

Will not pay cash dividends or acquire for cash any shares of its stock in excess of \$1,000,000 plus its cumulative consolidated net income after November 30, 1969. At December 31, 1976 retained earnings in the amount of \$4,189,000 were free of such restrictions.

In connection with certain 7% subordinated notes (which were retired in 1974), Golconda has issued warrants entitling the holders thereof to purchase, at a price of \$14.51 per share, 292,467 shares of Golconda's common stock. These warrants expire January 15, 1979.

The trust indenture underlying the convertible subordinated debentures provides, among other things, that the debentures are redeemable at Golconda's option at prices ranging from 103.5% in 1977 to 100% in 1984; that annual sinking fund payments of \$325,000 are required beginning in 1976 (such payments can be reduced by the principal amount of debentures acquired by Golconda or converted into common stock, and as a result, all of the 1976, 1977, and 1978 installments and \$49,000 of the 1979 installment have already been satisfied), that Golconda has an option to make additional annual payments of \$325,000 without premium and that the debentures are convertible into shares of common stock at a conversion price of \$10.67 per share (subject to non-dilution provisions).

Note 4: PENSION PLANS

Golconda has two pension plans covering substantially all employees. The charges to operations for the cost of the pension plans for the years ended December 31, 1976 and 1975 were \$533,000 and \$355,000, respectively.

At December 31, 1976, (based on the most recent actuarial study dated January 1, 1976) the unfunded past service cost relating to the above plans was \$3,664,000 and the vested benefits exceed the total of the pension fund assets and balance sheet accruals by approximately \$2,900,000.

Note 5: CAPITAL STOCK

Preferred stock consists of 932,151 authorized shares of \$1.00 par value, of which 380,902 shares are issued and outstanding at December 31, 1976.

LS 000580

The outstanding preferred stock is entitled to a preferential cumulative annual dividend at a rate of \$1.00 per share. The shares are redeemable at Golconda's option at \$37.50 per share plus unpaid cumulative dividends. The preferred stock has liquidation rights over the common stock in any final distribution and is entitled to one vote for each share held.

The outstanding preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares of common stock for each preferred share held. This conversion rate is subject to non-dilution provisions.

Common stock consists of 7,500,000 authorized shares, without par value, of which 2,774,392 shares are outstanding. At December 31, 1976 1,236,454 shares of authorized but unissued common shares have been reserved as follows: 571,353 shares upon conversion of preferred stock; 372,634 shares upon conversion of the 7% convertible subordinated debentures (Note 3); and 292,467 shares upon exercise of warrants for the purchase of common stock (Note 3). At December 31, 1976, and 1975, there were 82,718 shares and 71,250 shares, respectively, of common stock held in the treasury.

An analysis of the transactions during the year ended December 31, 1976 affecting preferred and common stock, additional contributed capital and treasury stock follows:

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Contributed Capital</u>	<u>Treasury Stock</u>
Balance -				
December 31, 1975	\$ 383,157	\$ 773,702	\$ 5,673,539	\$ (519,600)
Conversion of 177 shares of preferred stock into 265 shares of common stock	(177)	177		
Purchase of stock:				
Common, 11,468 shares				(48,979)
Preferred, 2,078 shares	(2,078)		(25,430)	
	<u>\$ 380,902</u>	<u>\$ 773,879</u>	<u>\$ 5,648,109</u>	<u>\$ (568,579)</u>

There was no activity during the year ended December 31, 1975.

Note 6: NET ASSETS OF BUSINESSES HELD FOR SALE

The December 31, 1975 balance consists principally of the property, plant and equipment of the Golconda Metals Division (See Note C - OTHER TERMINATIONS AND DISPOSALS).

LS 000581

Note 7: CONTINGENT LIABILITIES

Golconda is one of 35 defendants in a class action by a shareholder of United States National Bank of San Diego (Bank), in Fred H. Harmsen, et al vs. C. Arnholt Smith, et al, filed on October 29, 1973, in the United States District Court for the Southern District of California. The plaintiff purports to be acting in a derivative capacity on behalf of the shareholders of the Bank. The complaint seeks damages and other relief on behalf of the shareholders of the Bank on account of alleged violations of federal securities laws, illegal loans, improper acts of the Bank's directors, and conspiracy to commit the foregoing acts and fraud.

In the opinion of management and general counsel, the exposure of Golconda to any liability seems very remote in that Golconda's only connections with the Bank or with C. A. Smith were that some of Golconda's stock was at one time possessed by one of the Smith-dominated corporations and that Golconda maintained small bank accounts for a short period of time at the Bank of sizes that were not material to either Golconda or the Bank. There have not been any material transactions between Golconda and the other defendants and the Bank, and it is management's opinion that there are no facts, nor have any been specifically alleged, relating to Golconda, warranting inclusion in the complaint. An identical class action suit was filed by the plaintiff in the Superior Court in and for the County of San Diego to toll the statute of limitations in the State Court, but to date this suit has not yet been formally served upon Golconda.

Golconda's Federal income tax liabilities have been settled through 1968. Management believes that adequate allowances have been established for all income tax liabilities relating to Golconda. As a member of the GL consolidated Federal income tax group and previously of the Cerro group (See Note 1), Golconda is contingently liable for federal income taxes attributable to other members of the respective groups.

Note 8: SUBSEQUENT EVENTS

In January 1977, Golconda entered into an informal investment agreement with Cerro-Marmon. Under the terms of the agreement, Cerro-Marmon will invest a portion of Golconda's excess funds through Cerro-Marmon's investment sources on behalf of and for the benefit of Golconda. Golconda is in the same position as if it were investing independently except that it receives the benefit of Cerro-Marmon's investment sources. On January 4, 1977, Golconda invested \$5,000,000 under this agreement.

Beginning January 1, 1977 Golconda purchased a product liability insurance policy from an affiliated insurance company pursuant to which Golconda will, in effect, bear the cost of the first \$200,000 of each claim and the next \$400,000 of each claim (up to an aggregate of \$900,000) on a retrospective basis. While management believes that it is unlikely to happen, a large number of claims for accidents which might occur in 1977 could have a material adverse effect on Golconda's financial position and results of operations.

LS 000582

LS 000583

GOLCONDA CORPORATION AND SUBSIDIARIES

SCHEDULE V

PROPERTY, PLANT AND EQUIPMENT

	Balance at beginning of period	Additions at cost	Deductions		Balance at end of period
			Properties of discontinued operations	Retirements and sales	
Year ended 12/31/76:					
Land	\$ 598,000	\$	\$		\$ 598,000
Buildings & improvements	2,947,000	57,000	(9,000)		2,995,000
Machinery, equipment & tools	7,089,000	423,000	(533,000)		6,979,000
Office furniture & fixtures	256,000	6,000	(12,000)		250,000
	<u>\$ 10,890,000</u>	<u>\$ 486,000</u>		<u>\$ (554,000)</u>	<u>\$ 10,822,000</u>

-34-

Year ended 12/31/75:

Land	\$ 839,000	\$	\$	\$ (241,000)	\$ 598,000
Buildings & improvements	3,396,000	132,000	(235,000)	(3,000)	2,947,000
Machinery, equipment & tools	12,356,000	354,000	(4,223,000)	(259,000)	7,089,000
Office furniture & fixtures	409,000	1,000	(50,000)	(103,000)	256,000
	<u>\$ 17,000,000</u>	<u>\$ 487,000</u>	<u>\$ (4,508,000)</u>	<u>\$ (365,000)</u>	<u>\$ 10,890,000</u>
				<u>\$ (1,724,000)*</u>	<u>\$ 10,890,000</u>

* Transfer to net assets held for sale.

LS 000584

GOLCONDA CORPORATION AND SUBSIDIARIES

SCHEDULE VI

ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT & EQUIPMENT

	Balance at beginning of period	Additions charged to costs and expenses	Balance of discontinued operations	Retirements and sales	Other	Balance at end of period
Year ended 12/31/76:						
Buildings & improvements	\$ 1,308,000	\$ 143,000		\$ (9,000)		\$ 1,442,000
Machinery, equipment & tools	4,241,000	547,000		(525,000)		4,263,000
Office furniture & fixtures	131,000	25,000		(12,000)		144,000
	<u>\$ 5,680,000</u>	<u>\$ 715,000</u>		<u>\$ (546,000)</u>		<u>\$ 5,849,000</u>
Year ended 12/31/75:						
Buildings & improvements	\$ 1,400,000	\$ 125,000	\$ (190,000)	\$ (3,000)	\$ (24,000)	\$ 1,308,000
Machinery, equipment & tools	6,446,000	774,000	(2,565,000)	(234,000)	(180,000)	4,241,000
Office furniture & fixtures	238,000	37,000	(46,000)	(97,000)	(1,000)	131,000
	<u>\$ 8,084,000</u>	<u>\$ 936,000</u>	<u>\$ (2,801,000)</u>	<u>\$ (334,000)</u>	<u>\$ (205,000)*</u>	<u>\$ 5,680,000</u>

*Transfer to net assets held for sale.

GOLCONDA CORPORATION & SUBSIDIARIES

SCHEDULE XII

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

<u>Continuing operations</u>	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance end of period</u>
Allowance for doubtful receivables:				
Year ended 12/31/76	<u>\$ 291,000</u>	<u>\$ 42,000</u>	<u>\$ (203,000)(1)</u>	<u>\$ 130,000</u>
Year ended 12/31/75	<u>\$ 256,000</u>	<u>\$ 322,000</u>	<u>\$ (287,000)(1)</u>	<u>\$ 291,000</u>
Inventory valuation reserve:				
Year ended 12/31/76	<u>\$1,650,000</u>	<u>\$1,395,000</u>	<u>\$ (2,055,000)(2)</u>	<u>\$ 990,000</u>
Year ended 12/31/75	<u>\$ 900,000</u>	<u>\$1,260,000</u>	<u>\$ (510,000)(2)</u>	<u>\$1,650,000</u>
Reserve for decline in market value of investments:				
Year ended 12/31/76	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Year ended 12/31/75	<u>\$ 175,000</u>	<u>\$ _____</u>	<u>\$ (175,000)(3)</u>	<u>\$ _____</u>
<u>Discontinued operations</u>				
Allowance for doubtful receivables:				
Year ended 12/31/76	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Year ended 12/31/75	<u>\$ 98,000</u>	<u>\$ _____</u>	<u>\$ (98,000)(4)</u>	<u>\$ _____</u>

- (1) Write-off of uncollectible accounts net of recoveries.
- (2) Disposals of obsolete inventory.
- (3) Included as part of the write-down to net realizable value in 1975.
- (4) Included with assets of divisions sold.

LS 000585

GOLCONDA CORPORATION AND SUBSIDIARIES

SCHEDULE XVI

SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year ended	
	<u>12/31/76</u>	<u>12/31/75</u>
Continuing operations:		
Maintenance & repairs	<u>\$ 660,000</u>	<u>\$ 528,000</u>
Depreciation of property, plant and equipment	<u>\$ 715,000</u>	<u>\$ 936,000</u>
Taxes other than income taxes:		
Real estate & personal property	\$ 251,000	\$ 250,000
Payroll	609,000	425,000
Sundry	<u>31,000</u>	<u>14,000</u>
Total taxes	<u>\$ 891,000</u>	<u>\$ 689,000</u>
Rents	<u>\$ 298,000</u>	<u>\$ 273,000</u>

LS 000586

P A R T I I

Part II will not be filed at this time pursuant to General Instruction H which permits omission if a definitive proxy statement is filed not later than 120 days after the close of the year.

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, Golconda Corporation has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

GOLCONDA CORPORATION

DAVID R. NOMURA
by: David R. Nomura
Treasurer

DATE: March 30, 1977

LS 000587

GOLCONDA CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS PER SHARE
(In Thousands)

	<u>1976</u>	<u>1975</u>	<u>1974 (A)</u>	<u>1973</u>	<u>1972</u>
Shares for computations:					
Weighted average shares outstanding	2,781	2,785	2,785	2,785	2,785
Common stock equivalents (B):					
Assumed conversion of convertible preferred stock into common (C)			575	580	
Common shares for primary income per share	2,781	2,785	3,360	3,365	2,785
Assumed conversion of convertible preferred stock into common (C)					585
Assumed conversion of 7% convertible subordinated debentures under if converted method (D)			416	428	439
Common shares for fully diluted income per share	<u>2,781</u>	<u>2,785</u>	<u>3,776</u>	<u>3,793</u>	<u>3,809</u>
Net income for computations:					
Income (loss) from continuing operations:					
Manufacturing	\$ 191	\$(2,767)	\$ 455	\$ 1,970	\$ 1,484
Investments	(96)	(1,813)	7,021	1,183	341
	<u>95</u>	<u>(4,580)</u>	<u>7,476</u>	<u>3,153</u>	<u>1,825</u>
Income (loss) of discontinued operations		(735)	(1,915)	48	(119)
Income (loss) before preferred dividend requirement	95	(5,315)	5,561	3,201	1,706
Less preferred dividend requirement (C)	<u>(381)</u>	<u>(383)</u>			<u>(399)</u>
Net income (loss) for primary earnings per share	(286)	(5,698)	5,561	3,201	1,307
Plus preferred dividend requirement (C)					399
Add interest savings, net of applicable income taxes:					
7% convertible debentures (D)			184	185	197
Net income (loss) for fully diluted income per share	<u>\$ (286)</u>	<u>\$(5,698)</u>	<u>\$ 5,745</u>	<u>\$ 3,386</u>	<u>\$ 1,903</u>

(See notes on next page)

LS 000588

- (A) Reference is made to Note A of Notes to Consolidated Statement of Operations.
- (B) Yield of the 7% convertible debenture exceeded 66-2/3% of prime rate at date of issue, and therefore is not a common stock equivalent.
- (C) Anti-dilutive in 1976, 1975 and 1972. Dilutive, and therefore included in shares for primary income computation, in 1974 and 1973.
- (D) Anti-dilutive in 1976 and 1975.

LS 000589

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1977 Commission file number 1-848

RegO Company

(Exact name of registrant as specified in its charter)

Delaware

82-0122540

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

39 South LaSalle Street, Chicago, Illinois

60603

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Golconda Corporation

Former name, former address and former fiscal year, if changed
since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common stock outstanding as of June 30, 1977:
2,728,081 shares, par value \$.01

LS 001482

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands of dollars except per share data)
(Unaudited)

	Three Months Ended June 30,	
	<u>1977</u>	<u>1976</u>
Net sales	\$ 9,395	\$ 6,606
Cost of goods sold	<u>6,735</u>	<u>6,213</u>
Gross profit	<u>2,660</u>	<u>393</u>
Selling and administrative expenses	1,558	1,271
Interest expense	146	146
Interest (income)	(156)	(133)
Other (income) - net	<u>(85)</u>	<u>(75)</u>
	<u>1,463</u>	<u>1,209</u>
Income (loss) before income taxes	1,197	(816)
Income tax (provision) benefit	<u>(558)</u>	<u>408</u>
Net income (loss)	<u>\$ 639</u>	<u>\$ (408)</u>
Net income (loss) per common share (Note 4)	<u>\$.19</u>	<u>\$ (.18)</u>
Weighted average common shares outstanding	<u>2,763</u>	<u>2,785</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001483

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands of dollars except per share data)
(Unaudited)

	Six Months Ended June 30,	
	1977	1976
Net sales	\$ 17,332	\$ 12,921
Cost of goods sold	12,779	11,268
Gross profit	4,553	1,653
Selling and administrative expenses	2,876	2,441
Interest expense	289	295
Interest (income)	(295)	(290)
Other (income) - net	(138)	(107)
	2,732	2,339
Income (loss) before income taxes	1,821	(686)
Income tax (provision) benefit	(870)	342
Net income (loss)	\$ 951	\$ (344)
Net income (loss) per common share (Note 4)	\$.27	\$ (.19)
Weighted average common shares outstanding	2,768	2,785

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001484

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands of dollars)
(Unaudited)

	June 30,	
	1977	1976
<u>ASSETS</u>		
Current assets		
Cash, including certificates of deposit of \$1,750 in 1976	\$ 224	\$ 2,058
Commercial paper, at cost which approximates market	4,350	8,250
Investment agreement receivable - parent (Note 2)	8,152	-
Notes and accounts receivable - net	5,382	4,499
Inventories		
Raw materials and supplies	1,435	1,371
Finished goods and work in process	8,987	7,590
Income taxes		
Refund receivable	119	1,418
Deferred	771	778
Other current assets	205	1,080
Total current assets	29,625	27,044
Property, plant and equipment, at cost less accumulated depreciation of \$6,189 in 1977 and \$5,818 in 1976	4,997	4,938
Excess of cost over underlying equity of net assets acquired	3,135	3,135
Other assets	274	399
	<u>\$ 38,031</u>	<u>\$ 35,516</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001485

REGO COMPANY (Note 1)
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands of dollars)
(Unaudited)

	<u>June 30,</u>	
	<u>1977</u>	<u>1976</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable	\$ 2,169	\$ 1,384
Accounts payable - parent (Note 2)	1,591	1,375
Accrued liabilities	<u>2,576</u>	<u>1,368</u>
Total current liabilities	6,336	4,127
Long-term debt	6,362	6,618
Deferred income taxes	548	608
Contingent liabilities (Note 3)		
<u>SHAREHOLDERS' EQUITY</u>		
Capital stock:		
Preferred - redemption and liquidation value - 1977 \$13,988 and 1976 \$14,360	373	383
Common - authorized 7,500,000 shares, \$.01 par value; (no par in 1976) issued and outstanding 1977: 2,728,081; 1976: 2,780,402 - (Note 1)	27	774
Additional paid-in capital	6,283	5,672
Retained earnings	<u>18,887</u>	<u>17,877</u>
	25,570	24,706
Less treasury stock - at cost	<u>785</u>	<u>543</u>
Total shareholders' equity	<u>24,785</u>	<u>24,163</u>
	<u>\$ 38,031</u>	<u>\$ 35,516</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001486

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In thousands of dollars)
(Unaudited)

	Six Months Ended June 30,	
	<u>1977</u>	<u>1976</u>
Sources of working capital		
Total provided by operations	\$ 1,342	\$ 86
Other - net	<u>229</u>	<u>55</u>
Total sources of working capital	<u>1,571</u>	<u>141</u>
Uses of working capital		
Repurchase of stock	336	25
Additions to property, plant and equipment - net	364	146
Preferred dividends paid	192	192
Reduction of long-term debt	<u>59</u>	<u>88</u>
Total uses of working capital	<u>951</u>	<u>451</u>
Increase (decrease) in working capital	<u>\$ 620</u>	<u>\$ (310)</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001487

REGO COMPANY

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1977 and 1976

(Tabular amounts are in thousands of dollars)
(Unaudited)

The accompanying condensed consolidated financial statements, which are for an interim period, do not include all disclosures provided in annual financial statements. Reference is made to the consolidated financial statements and related notes thereto included in Golconda Corporation's 1976 Annual Report to Shareholders.

The accompanying condensed consolidated financial statements include all adjustments, consisting only of normal recurring accruals, except for a non-recurring provision for inventory obsolescence in the second quarter of 1976 of \$1,200,000 charged to cost of sales, which in the opinion of management are necessary for a fair presentation of the condensed consolidated financial position, results of operations and changes in financial position.

1. The shareholders approved on June 17, 1977, a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into a wholly-owned Delaware subsidiary. The Company's name was changed to RegO Company (RegO) and the Common Stock changed from no par value to \$.01 par value per share as a result of the merger.
2. Transactions between RegO and The Marmon Group, Inc. (Marmon) (formerly Cerro-Marmon Corporation), its parent, for the six months ended June 30, 1977 and 1976 include the following at prices determined by the parties:

	<u>1977</u>	<u>1976</u>
Purchases of inventory by RegO	\$ 2,939	\$ 2,241
Management fee charged to RegO	\$ 60	\$ 57
Interest income (A)	\$ 159	\$ -

(A) RegO has an informal investment agreement with Marmon whereby a portion of RegO's excess funds (\$8,152,000 at June 30, 1977) are invested by Marmon on behalf of and for the benefit of RegO. RegO is in the same position as if it were investing independently, except that it receives the benefit of Marmon's investment sources.

RegO does not have any other material transactions with Marmon or other affiliated companies other than income taxes (Note 3) and certain expenses paid by Marmon and charged to RegO which are directly attributable to RegO.

LS 001488

3. RegO is one of thirty-five defendants in a class action filed on October 29, 1973, in the United States District Court for the Southern District of California. The complaint seeks damages and other relief as a result of alleged violations of federal securities laws, illegal loans, improper acts and conspiracy to commit the foregoing acts and fraud. In the opinion of management and general counsel, the exposure of RegO to any liability seems very remote. An identical class action suit was filed by the plaintiff in the Superior Court in and for the County of San Diego to toll the statute of limitations in the State Court, but to date this suit has not yet been formally served upon RegO.

Examinations by the Internal Revenue Service (Service) of RegO's federal income tax returns for the years 1969 through 1972 have been substantially completed. The Service is in the initial stages of an examination of the federal income tax returns for the years 1973 and 1974 and has not progressed sufficiently to form any conclusions relating to matters in such returns. Management believes that adequate allowances have been established for all income tax liabilities relating to RegO. As a member of the GL (Marmon's parent) consolidated federal income tax group, RegO is contingently liable for federal income taxes attributable to other members of the group.

Beginning January 1, 1977 RegO purchased a product liability insurance policy from a company pursuant to which RegO will, in effect, bear the cost of the first \$200,000 of each claim and the next \$400,000 of each claim (up to an aggregate of \$900,000) on a current basis. While management believes that it is unlikely to happen, a large number of claims for product liability accidents might occur in 1977 which could have a material adverse effect on RegO's financial position and results of operations.

4. Income (loss) per common share is based on the weighted average number of common shares outstanding during each period, after recognition of dividend requirements on preferred stock. Conversion of the \$1 par value cumulative convertible preferred stock and the 7% convertible subordinated debentures and the exercise of outstanding warrants was not assumed because of the anti-dilutive effective in all periods.

LS 001489

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Comparison of results for the quarter ended
June 30, 1977 with the quarter ended June 30, 1976

Sales - increased \$2.8 million or 42%.

The increase of \$2.8 million is due to greater sales volume principally in the liquefied petroleum gas (LPG) equipment product line. Selling prices have also increased on most product lines since the comparable quarter of 1976.

Net income - increased \$1.0 million

Second quarter 1976 net income, before a provision, net of tax, of \$.6 million for inventory obsolescence, was \$192,000 compared to \$639,000 in 1977. This improvement reflects a better sales mix to higher margin LPG equipment, stabilized raw material costs and increases in selling prices. The improvement was partially offset by increased product liability insurance and data processing expenses.

Comparison of results for the quarter ended
June 30, 1977 with the quarter ended March 31, 1977

Sales - increased \$1.5 million or 18%.

Sales increased in the second quarter of 1977 over the preceding quarter due to increased volume particularly in LPG equipment. A sales price increase of 7% implemented on certain product shipments in April also contributed to the increase in sales.

Net income - increased \$.3 million.

The increase in net income reflects a better sales mix to higher margin LPG equipment, a higher percentage of non-wholesaler business having lower discounts and greater margins, sales price increases implemented in the second quarter and fairly stable raw material costs - particularly brass. These improvements were partially offset by increased product liability insurance and data processing expenses.

Comparison of results for the six months ended
June 30, 1977 with the six months ended June 30, 1976

Sales - increased \$4.4 million or 34%.

Net income - increased \$1.3 million.

Explanations of increases in sales and net income for the six months ended June 30, 1977 and June 30, 1976 are the same as contained in the comparison of results for the three-month periods ended June 30, 1977 and 1976.

LS 001490

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See the discussion in Note 3 of Condensed Notes to the Condensed Consolidated Financial Statements.

Item 7. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders on June 17, 1977:

(a) the following directors were elected:

R. M. Dunn

H. F. Magnuson

Wray Featherstone

John R. Morrill

Robert C. Gluth

Robert A. Pritzker

George A. Jones

Gordon Paul Smith

(b) The shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into a wholly-owned Delaware subsidiary. The Company's name was changed to RegO Company and the Common Stock changed from no par value to \$.01 par value per share as a result of the merger. There will be no change in RegO's business, its assets or its management as a result of the merger. There were 2,805,151 affirmative votes and 15,644 negative votes cast with respect to these matters.

Item 9. Exhibits and Reports on Form 8-K

(a) Exhibits

Copy of Golconda Corporation's proxy dated May 9, 1977 "Notice of Annual Meeting of Shareholders" is hereby incorporated by reference.

(b) No report on Form 8-K was required to be filed during the three months ended June 30, 1977.


LS 001491

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGO COMPANY
(Registrant)

Date: July 27, 1977


R. C. Gluth
Vice-President and Treasurer

LS 001492

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1977 Commission file number 1-848

RegO Company

(Exact name of registrant as specified in its charter)

Delaware

82-0122540

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

39 South LaSalle Street, Chicago, Illinois

60603

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Not Applicable

Former name, former address and former fiscal year, if changed
since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common stock outstanding as of September 30, 1977:
2,709,781 shares, par value \$.01

LS 001493

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands of dollars except per share data)
(Unaudited)

	Three Months Ended September 30,	
	<u>1977</u>	<u>1976</u>
Net sales	\$ 7,962	\$ 6,054
Cost of goods sold	<u>5,928</u>	<u>4,400</u>
Gross profit	<u>2,034</u>	<u>1,654</u>
Selling and administrative expenses	1,477	1,247
Interest expense	144	149
Interest (income)	(179)	(151)
Other (income) expense - net	<u>(114)</u>	<u>62</u>
	<u>1,328</u>	<u>1,307</u>
Income before income taxes	706	347
Income taxes	<u>(357)</u>	<u>(173)</u>
Net income	<u>\$ 349</u>	<u>\$ 174</u>
Net income per common share (Note 4)	<u>\$.10</u>	<u>\$.03</u>
Weighted average common shares outstanding	<u>2,715</u>	<u>2,778</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001494

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands of dollars except per share data)
(Unaudited)

	Nine Months Ended September 30,	
	<u>1977</u>	<u>1976</u>
Net sales	\$ 25,294	\$ 18,975
Cost of goods sold	<u>18,707</u>	<u>15,668</u>
Gross profit	<u>6,587</u>	<u>3,307</u>
Selling and administrative expenses	4,353	3,688
Interest expense	433	444
Interest (income)	(474)	(441)
Other (income) - net	<u>(252)</u>	<u>(45)</u>
	<u>4,060</u>	<u>3,646</u>
Income (loss) before income taxes	2,527	(339)
Income tax (provision) benefit	<u>(1,227)</u>	<u>169</u>
Net income (loss)	<u>\$ 1,300</u>	<u>\$ (170)</u>
Net income (loss) per common share (Note 4)	<u>\$.37</u>	<u>\$ (.16)</u>
Weighted average common shares outstanding	<u>2,751</u>	<u>2,783</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001495

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands of dollars)
(Unaudited)

	<u>September 30,</u>	
	<u>1977</u>	<u>1976</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ -	\$ 175
Commercial paper, at cost which approximates market	4,600	10,500
Investment agreement receivable - parent (Note 2)	8,262	-
Notes and accounts receivable - net	5,186	4,353
Inventories		
Raw materials and supplies	1,200	1,504
Finished goods and work in process	9,844	8,116
Income taxes		
Refund receivable	-	1,211
Deferred	722	847
Other current assets	<u>212</u>	<u>896</u>
Total current assets	30,026	27,602
Property, plant and equipment, at cost less accumulated depreciation of \$6,282 in 1977 and \$5,760 in 1976	4,138	4,983
Excess of cost over underlying equity of net assets acquired	3,135	3,135
Other assets	<u>264</u>	<u>355</u>
	<u>\$ 37,563</u>	<u>\$ 36,075</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001496

REGO COMPANY (Note 1)
CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands of dollars)
(Unaudited)

	<u>September 30,</u>	
	<u>1977</u>	<u>1976</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable	\$ 2,185	\$ 1,608
Accounts payable - parent (Note 2)	1,357	1,507
Accrued liabilities	<u>2,179</u>	<u>1,540</u>
Total current liabilities	5,721	4,655
Long-term debt	6,335	6,566
Deferred income taxes	563	643
Contingent liabilities (Note 3)		
Shareholders' Equity		
Capital stock:		
Preferred - redemption and liquidation value - 1977 \$13,982 and 1976 \$14,306	373	381
Common - authorized 7,500,000 shares, \$.01 par value (no par in 1976); issued and outstanding 1977: 2,709,781; 1976: 2,777,627 - (Note 1)	27	774
Additional paid-in capital	6,277	5,654
Retained earnings	<u>19,143</u>	<u>17,957</u>
	25,820	24,766
Less common stock in treasury - at cost	<u>876</u>	<u>555</u>
Total shareholders' equity	<u>24,944</u>	<u>24,211</u>
	<u>\$ 37,563</u>	<u>\$ 36,075</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001497

REGO COMPANY (Note 1)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)
(Unaudited)

	Nine Months Ended September 30,	
	<u>1977</u>	<u>1976</u>
Sources of working capital		
Net income (loss)	\$ 1,300	\$ (170)
Depreciation	<u>617</u>	<u>584</u>
Funds provided from operations	1,917	414
Other	<u>304</u>	<u>155</u>
Total sources of working capital	<u>2,221</u>	<u>569</u>
Uses of working capital		
Purchase of preferred and common stock	433	57
Additions to (retirements of) property, plant and equipment - net	(218)	366
Preferred dividends paid	284	286
Reduction of long-term debt	<u>86</u>	<u>140</u>
Total uses of working capital	<u>585</u>	<u>849</u>
Increase (decrease) in working capital	1,636	(280)
Working capital at beginning of period	<u>22,669</u>	<u>23,227</u>
Working capital at end of period	<u>\$ 24,305</u>	<u>\$ 22,947</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

LS 001498

REGO COMPANY

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1977 and 1976

(Tabular amounts are in thousands of dollars)
(Unaudited)

The accompanying condensed consolidated financial statements, which are for an interim period, do not include all disclosures provided in annual financial statements. Reference is made to the consolidated financial statements and related notes thereto included in Golconda Corporation's 1976 Annual Report to Shareholders.

The accompanying condensed consolidated financial statements include all adjustments, consisting only of normal recurring accruals, except for a non-recurring provision for inventory obsolescence in the second quarter of 1976 of \$1,200,000 charged to cost of sales, which in the opinion of management are necessary for a fair presentation of the condensed consolidated financial position, results of operations and changes in financial position.

1. On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into a wholly-owned Delaware subsidiary. The Company's name was changed to RegO Company (RegO) and the common stock changed from no par value to \$.01 par value per share as a result of the merger.
2. Transactions between RegO and The Marmon Group, Inc. (Marmon), its parent, for the nine months ended September 30, 1977 and 1976 include the following at prices determined by the parties:

	<u>1977</u>	<u>1976</u>
Purchases of inventory by RegO	\$ 4,185	\$ 3,327
Management fee charged to RegO	\$ 86	\$ 86
Interest income (A)	\$ 279	\$ -

(A) RegO has an informal investment agreement with Marmon whereby a portion of RegO's excess funds (\$8,262,000 at September 30, 1977) are invested by Marmon on behalf of and for the benefit of RegO. RegO is in the same position as if it were investing independently, except that it receives the benefit of Marmon's investment sources.

RegO does not have any other material transactions with Marmon or other affiliated companies other than income taxes (Note 3) and certain expenses paid by Marmon and charged to RegO which are directly attributable to RegO.

LS 001499

3. RegO is one of thirty-five defendants in a class action filed on October 29, 1973, in the United States District Court for the Southern District of California. The complaint seeks damages and other relief as a result of alleged violations of federal securities laws, illegal loans, improper acts and conspiracy to commit the foregoing acts and fraud. The parties have agreed to a settlement, subject to court approval, which would dismiss RegO from this proceeding. In the opinion of management and general counsel, there will be no significant adverse effect to RegO whether or not the settlement is approved.

Examinations by the Internal Revenue Service (Service) of RegO's federal income tax returns for the years 1969 through 1972 have been substantially completed. The Service is in the initial stages of an examination of the federal income tax returns for the years 1973 and 1974 and has not progressed sufficiently to form any conclusions relating to matters in such returns. Management believes that adequate allowances have been established for all income tax liabilities relating to RegO. As a member of the GL Corporation (Marmon's parent) consolidated federal income tax group, RegO is contingently liable for federal income taxes attributable to other members of the group.

Beginning January 1, 1977 RegO purchased a product liability insurance policy pursuant to which RegO will, in effect, bear the cost of the first \$200,000 of each claim and the next \$400,000 of each claim (up to an aggregate of \$900,000) on a current basis. While management believes that it is unlikely to happen, a large number of claims for product liability accidents might occur in 1977 which could have a material adverse effect on RegO's financial position and results of operations.

4. Income (loss) per common share is based on the weighted average number of common shares outstanding during each period and gives effect to dividend requirements on preferred stock. Conversion of the \$1 par value cumulative convertible preferred stock and the 7% convertible subordinated debentures and the exercise of outstanding warrants was not assumed because of the anti-dilutive effective in all periods.

LS 001500

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Comparison of results for the quarter ended
September 30, 1977 with the quarter ended September 30, 1976

Sales - Increased \$1.9 million or 32%.

The sales increase of \$1.9 million is due primarily to greater sales volume in the liquefied petroleum gas (LPG) equipment product line. Selling prices have also increased on most product lines since the comparable quarter of 1976.

Net income - Increased \$.2 million.

Net income increased \$.2 million over the 1976 third quarter as a result of higher selling prices on LPG equipment and stabilized raw material costs. The 1977 third quarter includes a pre-tax gain of \$32,000 on the sale of a warehouse, offset by increased selling and general and administrative expenses relating principally to product design engineering and product liability insurance expense.

Comparison of results for the quarter ended
September 30, 1977 with the quarter ended June 30, 1977

Sales - Decreased \$1.4 million or 15%.

Third quarter sales are down due to a one-week plant shut-down for vacations and a seasonal decline in product demand.

Net income - Decreased \$.3 million or 45%.

The factors discussed above along with increasing product liability insurance costs adversely impacted third quarter results.

Comparison of results for the nine months ended
September 30, 1977 with the nine months ended September 30, 1976

Sales - Increased \$6.3 million or 33%.

Net income - Increased \$1.5 million.

The increase in net income from 1976 to 1977, adjusted for the 1976 provision (net of tax) of \$.6 million for inventory obsolescence, was \$.9 million. This inventory provision, along with increased unit sales volume, increased selling prices and better sales mix to higher margin LPG equipment have resulted in the increased sales and net income. The increase in net income has been partially offset by increased selling expenses, increased product liability insurance expense and data processing expenses relating to a new inventory control program.

LS 001501

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See the discussion in Note 3 of Condensed Notes to Condensed Consolidated Financial Statements.

Item 9. Exhibits and Reports on Form 8-K

(a) No report on Form 8-K was required to be filed during the three months ended September 30, 1977.

LS 001502

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGO COMPANY
(Registrant)

Date: November 11, 1977


R. C. Gluth
Vice-President and Treasurer

LS 001503

THE *REGO* GROUP, INC.

ANNUAL REPORT 1977

LS 001504

(Formerly Golconda Corporation)

To Our Shareholders

The year 1977 showed a substantial improvement from the two preceding years.

Sales of \$34,324,000 were up 28% over 1976 and net income was \$2,245,000 in 1977 compared to \$95,000 in 1976 (after an inventory valuation adjustment of \$697,000 net of tax).

In 1977, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for substantially all of its inventory. The change to LIFO reduced net income in 1977 by \$891,000.

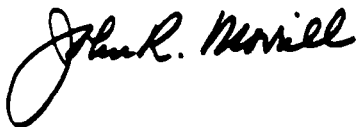
A major factor in the year's profitability was the improvement in the LP-Gas market to which RegO sells most of its product. RegO's customers, the dealers distributing propane and butane, had a good year because of the severe winter. They expanded their operations and re-established their equipment replacement programs.

RegO's cost reduction programs were on target and saved the company over \$700,000. A surplus warehouse and land across the street from the RegO Division plant were disposed of mid-year at over book value.

The Company substantially reduced product liability insurance coverage in 1977 due to the unavailability of such coverage at an acceptable cost. As discussed in Note 7 to the consolidated financial statements, possible losses from product liability claims are not determinable but could involve significant amounts. The Company is carefully monitoring quality and keeping proper records in order to minimize product liability exposure.

As you are aware, Golconda Corporation changed its name in June, 1977 to RegO Company and reincorporated in Delaware. Early in 1978, we changed the name of the parent corporation to The RegO Group, Inc. and set up the RegO Division as a separate wholly owned subsidiary called RegO Company. The two name changes required no change in your common or preferred stock certificates.

Sincerely,



John R. Morrill
President

LS 001505

GENERAL INFORMATION

Officers and Directors

R. M. Dunn

Director and Chairman of Executive Committee
Ozark Airlines, Inc., St. Louis, Missouri
Chairman of the Board
Ken-A-Vision Manufacturing Co. (manufacturing)
Kansas City, Missouri

W. Featherstone

Mining Engineer
Wallace, Idaho

R. C. Gluth

Vice President and Treasurer
The RegO Group, Inc.
Executive Vice President
The Marmon Group, Inc. (diversified manufacturing)

G. A. Jones

Executive Vice President
The Marmon Group, Inc. (diversified manufacturing)

H. F. Magnuson

Partner
H. F. Magnuson & Company
(Certified Public Accountants)
Wallace, Idaho

J. R. Morrill

President and Chief Executive Officer
The RegO Group, Inc.

R. A. Pritzker

President and Treasurer
The Marmon Group, Inc. (diversified manufacturing)

G. P. Smith

Chairman of the Board
The RegO Group, Inc.

C. B. Cranford

Vice President—Controller

T. L. Seifert

Secretary and General Counsel

D. V. Ytterberg

Vice President

Capital Stock

The Company's common shares are traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: REG). Its preferred stock is traded on the Pacific Stock Exchange (symbol: REG. PR). The Marmon Group, Inc. owns 90% of the Company's common shares and 76% of its preferred shares.

The following table presents the quarterly high and low prices of the Company's common and preferred stock for the past two years as reported by the Pacific Stock Exchange:

	Common		Preferred	
	High	Low	High	Low
1977				
First Quarter	\$3¾	\$3	\$14½	\$13¾
Second Quarter	5	3	15¾	14¼
Third Quarter	4¾	4½	15¾	14¾
Fourth Quarter	5¼	4	16¼	14¼
1978				
First Quarter	4¼	3	12	10
Second Quarter	4¼	3	12¾	11¾
Third Quarter	4¼	3¾	13	12¼
Fourth Quarter	4¼	3¾	14½	13

No dividends have been paid on common stock during the past two years. A dividend of \$.25 per share has been paid each quarter for the past two years on the \$1.00 Cumulative Convertible Preferred Stock.

Transfer Agent & Registrar

American National Bank & Trust Company
33 N. LaSalle Street
Chicago, Illinois 60690

Auditors

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611

1978 Annual Meeting

The RegO Group, Inc. 1978 annual meeting of shareholders will be at 9:00 A.M. on June 16, 1978, at the offices of the subsidiary, RegO Company, 4201 W. Peterson Avenue, Chicago, Illinois 60646.

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your request to:

Mr. Thomas L. Seifert, Secretary
The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

BUSINESS DESCRIPTION

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the "Company") (formerly RegO Company), a wholly-owned Delaware subsidiary. The Company is engaged in the manufacture and sale of pressure regulators, valves, manifolds, fittings and related equipment used in the control of gases and liquids. A significant portion of the sales are to the petroleum, construction and plumbing industries.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Shareholders
The RegO Group, Inc.

We have examined the consolidated balance sheets of The RegO Group, Inc. (formerly Golconda Corporation) (the "Company") at December 31, 1977 and 1976, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 10, the Company purchases a substantial portion of its raw materials from its parent at prices determined by the parties.

As more fully described in Note 7, in 1977 the Company is subject to possible losses relating to uninsured product liability claims. It is not possible at this time to determine the ultimate effect if any, of such claims on the Company's consolidated financial position and results of operations, and no provision for possible product liability losses, which losses could be significant, has been made in the accompanying financial statements.

In our opinion, subject to the effects, if any, on the 1977 consolidated financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of The RegO Group, Inc. at December 31, 1977 and 1976, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change, with which we concur, in the method of valuing inventories as described in Note 2.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 9, 1978

LS 001507

THE RegO GROUP, INC.
CONSOLIDATED BALANCE SHEET
(In thousands of dollars)

ASSETS

	<i>December 31,</i>	
	<u>1977</u>	<u>1976</u>
Current assets		
Cash (including \$3,000 of certificates of deposit in 1977)	\$ 3,294	\$ 123
Investment agreement receivable—parent (Note 10)	8,411	
Commercial paper, at cost which approximates market	1,100	11,100
Notes and accounts receivable, less allowance for doubtful receivables (1977—\$120; 1976—\$130)	4,644	4,504
Inventories (Note 3)	12,173	9,215
Income taxes (Note 5)		
Refund receivable		937
Deferred	521	755
Other current assets	<u>86</u>	<u>23</u>
Total current assets	30,229	26,657
 Property, plant and equipment—at cost (Note 4)		
Land	137	598
Buildings and improvements	2,617	2,995
Machinery and equipment	<u>7,691</u>	<u>7,229</u>
	10,445	10,822
Less accumulated depreciation	<u>(6,122)</u>	<u>(5,849)</u>
Property, plant and equipment—net	4,323	4,973
 Excess of cost over underlying equity in net assets acquired	3,135	3,135
Other assets	<u>434</u>	<u>523</u>
	<u>\$38,121</u>	<u>\$35,288</u>

See Notes to Consolidated Financial Statements.

LS 001508

THE Rego GROUP, INC.
CONSOLIDATED BALANCE SHEET
(In thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<i>December 31,</i>	
	<u>1977</u>	<u>1976</u>
Current liabilities		
Current maturities of long-term debt (Note 4)	\$ 108	\$ 98
Accounts payable	1,913	1,326
Accounts payable—parent	1,489	1,098
Accrued liabilities		
Income taxes	811	
Salaries and wages	175	133
Property and payroll taxes	299	246
Employee benefits	456	661
Other	<u>389</u>	<u>426</u>
Total current liabilities	5,640	3,988
Long-term debt (Note 4)	6,307	6,421
Deferred income taxes	575	518
Contingent liabilities (Notes 5 and 7)		
Shareholders' equity (Notes 4 and 8)		
Preferred stock—authorized 919,523 shares, \$1.00 par value; issued and outstanding—368,274 shares in 1977 and 380,902 shares in 1976 (redemption and liquidation value: 1977—\$13,810; 1976—\$14,284) ..	368	381
Common stock—authorized 7,500,000 shares, \$.01 par value (no par in 1976); issued—2,857,110 shares in 1977 and 1976	29	774
Other paid-in capital	6,194	5,648
Retained earnings	<u>19,995</u>	<u>18,127</u>
	26,586	24,930
Less common stock in treasury—at cost: 1977—166,466 shares; 1976—82,718 shares	<u>(987)</u>	<u>(569)</u>
Total shareholders' equity	<u>25,599</u>	<u>24,361</u>
	<u>\$38,121</u>	<u>\$35,288</u>

See Notes to Consolidated Financial Statements.

THE Rego GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars except per share data)

	<i>Years ended December 31,</i>	
	<u>1977</u>	<u>1976</u>
Revenues		
Net sales	\$34,324	\$26,809
Other income	1,095	747
	<u>35,419</u>	<u>27,556</u>
Costs and expenses		
Cost of goods sold	25,138	21,618
Selling and administrative expense	5,463	5,147
Interest expense	579	601
	<u>31,180</u>	<u>27,366</u>
Income before allocation of income taxes	4,239	190
Allocation of income taxes (Note 5)	1,994	95
Net income	<u>\$ 2,245</u>	<u>\$ 95</u>
Net income (loss) per common share (Note 9)		
Primary	<u>\$.68</u>	<u>\$ (.10)</u>
Fully diluted	<u>\$.65</u>	<u>\$ (.10)</u>

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1977 AND 1976

(In thousands of dollars)

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Other paid-in capital</u>	<u>Retained earnings</u>	<u>Treasury stock</u>	<u>Total</u>
Balance at January 1, 1976	\$383	\$ 774	\$5,674	\$18,413	\$(520)	\$24,724
Purchases during the year	(2)		(26)		(49)	(77)
Net income				95		95
Preferred dividends paid				(381)		(381)
Balance at December 31, 1976	381	774	5,648	18,127	(569)	24,361
Change to par value stock		(745)	745			
Purchases during the year	(13)		(199)		(418)	(630)
Net income				2,245		2,245
Preferred dividends paid				(377)		(377)
Balance at December 31, 1977	<u>\$368</u>	<u>\$ 29</u>	<u>\$6,194</u>	<u>\$19,995</u>	<u>\$(987)</u>	<u>\$25,599</u>

See Notes to Consolidated Financial Statements.

LS 001510

THE Rego GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	<i>Years ended December 31,</i>	
	<u>1977</u>	<u>1976</u>
<i>Sources of working capital</i>		
From operations		
Net income	\$ 2,245	\$ 95
Charges (credits) not involving working capital		
Depreciation	829	715
Deferred income taxes	57	(47)
Other	89	42
Working capital provided from operations	3,220	805
Disposition of property, plant and equipment	820	8
Total	<u>4,040</u>	<u>813</u>
<i>Uses of working capital</i>		
Purchase of property, plant and equipment	999	486
Reduction of long-term debt	114	285
Preferred dividends paid	377	381
Purchase of capital stock	630	77
Other—net		142
Total uses of working capital	<u>2,120</u>	<u>1,371</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 1,920</u>	<u>\$ (558)</u>
<i>Changes in the components of working capital</i>		
Cash, certificates of deposit, investment agreement receivable and commercial paper	\$ 1,582	\$ 3,647
Notes and accounts receivable—net	140	(674)
Inventories	2,958	(1,560)
Income taxes	(1,171)	(160)
Investments held for sale		(250)
Net assets of businesses held for sale		(715)
Other current assets	63	(146)
Net increase in current assets	<u>3,572</u>	<u>142</u>
Current maturities of long-term debt	10	9
Accounts payable	978	154
Accrued liabilities	664	537
Net increase in current liabilities	<u>1,652</u>	<u>700</u>
Increase (decrease) in working capital	1,920	(558)
Working capital at beginning of year	<u>22,669</u>	<u>23,227</u>
Working capital at end of year	<u>\$24,589</u>	<u>\$22,669</u>

See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars except as noted)

Note 1. Organization

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the "Company") (formerly RegO Company), a wholly-owned Delaware subsidiary. This change had no effect on the consolidated financial statements of the Company. The Marmon Group, Inc. (Marmon) owns 76% of the Company's preferred stock and 90% of its common stock, representing 88% of the outstanding voting stock of the Company.

Note 2. Summary of Significant Accounting Policies

Consolidation—all subsidiaries are consolidated and significant intercompany transactions and balances have been eliminated.

Inventories—are stated at the lower of cost or market (principally net realizable value). In 1977, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for substantially all of its inventories. The change was made in order to more closely match current costs with current revenues. The LIFO method is common in the industry and is the predominant method used by Marmon's accounting predecessor company. The cost of the remaining inventories in 1977 (and the cost of all inventories in 1976) was determined on a first-in, first-out (FIFO) basis.

Property, plant and equipment—for financial reporting purposes prior to January 1, 1977, the Company computed depreciation principally on a straight-line basis over the estimated useful lives of the assets. Beginning January 1, 1977, the Company changed to accelerated depreciation methods for all assets acquired subsequent thereto in order to conform to the method predominantly used by Marmon and its other consolidated subsidiaries and to adopt a method under which periodic increases in maintenance will tend to be offset by periodic declines in depreciation. Such change did not have a material effect on income in the current year. The estimated lives used in determining depreciation are as follows:

Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 20 years

Maintenance and repairs are charged to operations as incurred. Major betterments and renewals are capitalized. Any gain or loss upon disposal is reflected in operations.

Income taxes—provision is made for deferred taxes which arise primarily from the use of accelerated depreciation methods for tax purposes and from provisions relating to inventory valuation which are not currently deductible for tax purposes. Available investment tax credits (not significant in amount) are accounted for under the "flow-through" method.

Since February 25, 1976, the Company has been included in the consolidated federal tax return of GL Corporation, the parent of Marmon. Under the terms of a tax sharing agreement with its parent, federal income taxes are computed as if the Company and its subsidiaries continued to file a separate consolidated return and liabilities are remitted to and benefits and refunds obtained from its parent on this basis. State income tax returns are filed on an individual company basis.

Excess of cost over underlying equity in net assets acquired—the amount shown on the balance sheet arose prior to fiscal year 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension plans—current costs are accrued and funded on a current basis; unfunded past service costs are accrued and funded on a thirty-year basis.

Note 3. Inventories

Inventories used in the computation of cost of goods sold are comprised of the following:

	1977	1976	1975
Inventories at the lower of cost or market			
Finished goods and work in process	\$12,375	\$8,118	\$ 9,134
Raw materials and supplies	1,479	1,097	1,641
	13,854	9,215	10,775
Less LIFO reserve	1,681		
	<u>\$12,173</u>	<u>\$9,215</u>	<u>\$10,775</u>

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The change to LIFO in 1977 reduced net income by \$891,000 or \$.27 per share (\$.24 on a fully diluted basis). There is no effect on prior years earnings resulting from the change to LIFO in 1977.

Note 4. Long-term debt

Long-term debt is comprised of the following:

	<u>December 31,</u>	
	<u>1977</u>	<u>1978</u>
7% convertible subordinated debentures, due January 1, 1990	\$3,970	\$3,976
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	2,445	2,543
	<u>6,415</u>	<u>6,519</u>
Less current maturities	108	98
	<u>\$6,307</u>	<u>\$6,421</u>

The net book value of the property subject to the mortgage at December 31, 1977 was \$964,000.

The aggregate amounts of long-term debt maturing in each of the years 1979-1982 are: \$389,000 in 1979, \$457,000 in 1980, \$471,000 in 1981 and \$486,000 in 1982.

The 7% convertible subordinated debenture agreement contains covenants which provide, among other things, that consolidated working capital is to be maintained at not less than \$10,000,000 and that the Company will not pay cash dividends on its common stock or acquire for cash any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income, less preferred dividends, after November 30, 1969. At December 31, 1977, consolidated net working capital was \$24,589,000; \$5,639,000 was available for the payment of cash dividends on its common stock and the purchase of shares of its common stock.

The trust indenture underlying the convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 103% in 1978 to 100% in 1984, and that sinking fund payments of \$325,000 are required annually with an option to make additional annual payments of \$325,000 without premium; such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock. All of the 1978 installments and \$55,000 of the 1979 installments have been satisfied. The debentures are convertible into shares of common stock at a conversion price of \$10.67 per share (subject to non-dilution provisions).

Note 5. Income Taxes

The provision for (benefit from) income taxes consists of:

	<u>1977</u>	<u>1978</u>
Current		
Federal	\$1,533	\$(426)
State	170	(67)
Deferred (principally federal)	291	588
	<u>\$1,994</u>	<u>\$ 95</u>

The income tax effects of significant items which resulted in effective tax rates of 47% and 50% for 1977 and 1978, respectively, follow:

	<u>1977</u>	<u>1978</u>
Income taxes based on 48% of reported income	\$2,035	\$ 91
Increase (decrease) resulting from:		
Investment tax credits	(51)	(7)
Profits of Domestic International Sales Corporation	(58)	(6)
State and other income taxes, less related federal income tax benefits ..	88	7
Other	(20)	10
Income taxes as reported	<u>\$1,994</u>	<u>\$ 95</u>

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Tax law allows or requires the determination of taxable income in a manner different from generally accepted accounting principles. The provision for deferred income taxes resulting from timing differences is comprised of the following:

	<u>1977</u>	<u>1976</u>
Excess of tax over book depreciation	\$ 74	\$ 39
Losses realizable for tax purposes on prior year write down of assets to estimated realizable value	119	401
Inventory reserves	147	359
Product liability reserve	(17)	(83)
Other	(32)	(128)
Deferred income tax provision	<u>\$291</u>	<u>\$588</u>

The 1976 deferred income tax provision (at an effective rate of 50%) has been decreased by \$380,000, with no effect on net income, to reflect the 1975 federal income tax return as filed.

Examinations by the Internal Revenue Service (Service) of the Company's federal income tax returns for the years 1969 through 1972 have been substantially completed. The Service is in the initial stages of an examination of the federal income tax returns for the years 1973 and 1974 but has not progressed sufficiently to form any conclusions relating to matters in such returns. Management believes that adequate allowances have been established for all income tax liabilities relating to the Company. As a member of the GL Corporation (Marmon's parent) consolidated federal income tax group, the Company is contingently liable for federal income taxes attributable to other members of the group. GL has agreed to indemnify the Company against any such liabilities.

Note 6. Pension Plans

The Company has two pension plans covering substantially all employees. The charges to operations for the cost of the pension plans for the years ended December 31, 1977 and 1976 were \$531,000 and \$533,000, respectively.

The unfunded past service cost relating to the above plans was approximately \$3,564,000 at December 31, 1977. The vested benefits exceed the total of the pension fund assets and balance sheet accruals by approximately \$2,127,000 at that date.

Note 7. Contingent Liabilities

The Company is one of thirty-five defendants in a class action filed on October 29, 1973, in the United States District Court for the Southern District of California. The complaint seeks damages and other relief as a result of alleged violations of federal securities laws, illegal loans, improper acts and conspiracy to commit the foregoing acts and fraud. The parties have agreed to a settlement, subject to court approval, which would dismiss the Company from this proceeding. In the opinion of management and general counsel, there will be no material adverse effect to the Company whether or not the settlement is approved.

For all periods through December 31, 1976, the Company has no material exposure for product liability claims. Beginning January 1, 1977 the Company purchased a product liability insurance policy pursuant to which the Company will, in effect, bear the cost of the first \$200,000 of each claim and the next \$400,000 of each claim (up to an aggregate of \$900,000) over and above the first \$200,000 of each claim. A number of product liability claims with respect to 1977 have been asserted and, based upon the Company's historic experience, additional claims might be asserted as such claims are sometimes initiated up to two or more years following an alleged product malfunction. Therefore, in the opinion of management, it is not possible at this time to determine the ultimate effect, if any, of such claims on the Company's consolidated financial position and results of operations, and no provision for possible product liability losses, which losses could be significant, has been made in the accompanying financial statements. This method of accounting is in conformity with Financial Accounting Standard No. 5.

THE Rego GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8. Capital Stock

The outstanding preferred stock is entitled to a preferential cumulative annual dividend at the rate of \$1.00 per share. The shares are redeemable at the Company's option at \$37.50 per share plus unpaid cumulative dividends. The preferred stock has liquidation rights over the common stock in any final distribution and is entitled to one vote for each share held.

The outstanding preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares of common stock for each preferred share held. This conversion rate is subject to non-dilution provisions.

At December 31, 1977, 1,216,949 shares of authorized but unissued common shares have been reserved as follows: 552,411 shares for conversion of preferred stock; 372,071 shares for conversion of the 7% convertible subordinated debentures (Note 4); and 292,467 shares for exercise of outstanding warrants for the purchase, at \$14.51 per share, of common stock. The warrants expire January 15, 1979.

Note 9. Income (loss) per common share

Primary income per share for 1977 is based on net income and the weighted average number of shares of common stock and common stock equivalents (shares issuable upon the assumed conversion of preferred stock) outstanding during the year. For 1976, primary loss per share was based on net income less preferred dividend requirements and the weighted average number of shares of common stock outstanding as the assumed conversion of preferred stock was anti-dilutive.

Fully diluted income per share for 1977 reflects the assumed conversion of the weighted average number of convertible debentures outstanding during the year and the related interest savings net of tax. For 1976, the assumed conversion of the convertible debentures was anti-dilutive.

Note 10. Related party transactions

Transactions between the Company and its parent, at prices and upon terms determined by the parties, include the following:

	<u>1977</u>	<u>1976</u>
Purchases of raw materials by the Company	\$ 5,285	\$ 4,327
Management fee charged to the Company	116	115
Interest income(1)	411	

(1) The Company has an informal investment agreement with Marmon whereby a portion of the Company's excess funds (\$8,411,000 at December 31, 1977) is invested by Marmon on behalf of and for the benefit of the Company.

The Company does not have any other material transactions with its parent or other affiliated companies other than certain expenses, including federal income taxes, paid by its parent and charged to the Company which are directly attributable to the Company. The management fee covers certain services, including general management, personnel matters, insurance and pension plan matters, legal, accounting and taxation matters and other similar matters which its parent provides to its divisions, subsidiaries and affiliates.

In December 1976, the Company sold its investments in mining stocks and related assets to a director for \$175,000 resulting in a loss in 1976 of \$135,000. The mining stocks were originally purchased for \$788,000 and were subsequently written down, in 1975, to an estimated realizable value of \$250,000. The write-down was made because, in the opinion of management, the value of the assets underlying these mining stocks had become permanently impaired. The sale was approved by the Company's Board of Directors, with the acquiring director abstaining from voting.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11. Industry Information

The Company operates in one industry—products used in the control or regulation of the flow of gases and liquids, a significant portion of which is sold to the petroleum, construction and plumbing industries.

Two customers, in the aggregate, accounted for approximately \$7,100,000 or 21% of total sales in 1977. Export sales in 1977 were in the following geographic areas:

	<u>Sales</u>
Canada	\$1,527
Central and South America	731
Asia and Far East	447
Europe	401
All other	455
	<u>\$3,561</u>

The Company has no foreign operations.

Note 12. Quarterly data (Unaudited)

	<u>Quarter Ended</u>			
	<u>Mar. 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
1977				
Sales	\$7,937	\$9,395	\$7,962	\$9,030
Cost of sales				
As originally reported	6,044	6,735	5,928	
As restated	6,026	6,716	5,908	6,488
Income before income taxes				
As originally reported	624	1,197	706	
As restated	669	1,335	904	1,331
Net income				
As originally reported	312	639	349	
As restated	355	707	479	704
Net income per common share				
Primary				
As originally reported .....	.08	.19	.10	
As restated .....	.09	.22	.14	.22
Fully diluted				
As originally reported .....	.08	.19	.10	
As restated .....	.09	.20	.14	.20
1976				
Sales	\$6,315	\$6,606	\$6,054	\$7,834
Cost of sales	5,055	6,213	4,400	5,950
Income (loss) before income taxes	130	(816)	347	529
Net income (loss)	64	(408)	174	265
Net income (loss) per share				
Primary	(.01)	(.18)	.03	.06
Fully diluted	(.01)	(.18)	.03	.06

The restated amounts shown above for each of the first three quarters in 1977 reflect restatement for (1) the adoption in 1977 of the last-in, first-out (LIFO) method of inventory valuation less under absorption of manufacturing overhead and reduction of the provision for product liability losses, and (2) related income tax effects.

THE RegO GROUP, INC.

FIVE YEAR SUMMARY OF OPERATIONS

(In thousands of dollars except per share data)

The following consolidated summary of operations of The RegO Group, Inc. for the four years ended December 31, 1977 and the year ended November 30, 1973 is not reported upon herein by certified public accountants. This summary should be read in conjunction with the consolidated statements of the Company and the certified public accountants' report with respect thereto, which is qualified as set forth therein for the year ended December 31, 1977, contained elsewhere in this Annual Report to Shareholders.

	Years ended				November
	December 31,				30,
	1977	1976	1975	1974(A)	1973
Continuing operations					
Net sales	\$34,324	\$26,809	\$21,481	\$31,059	\$33,011
Cost of goods sold (Note B)	25,138	21,618	19,308	24,078	23,540
Selling and administrative expenses ...	5,463	5,147	4,808	6,136	5,643
Interest expense	579	601	715	1,162	795
Unusual losses (income) (Note C)			1,907	(10,541)	(1,753)
Other income—net	(1,095)	(747)	(301)	(658)	(338)
	<u>30,085</u>	<u>26,619</u>	<u>26,437</u>	<u>20,177</u>	<u>27,887</u>
Income (loss) before income taxes ...	4,239	190	(4,956)	10,882	5,124
Income tax (provision) benefit	(1,994)	(95)	376	(3,406)	(1,971)
Income (loss) from continuing operations	2,245	95	(4,580)	7,476	3,153
Discontinued operations (Note D)			(735)	(1,915)	48
Net income (loss)	2,245	95	(5,315)	5,561	3,201
Preferred stock dividend requirement	(377)	(381)	(383)	(383)	(385)
Net income (loss) applicable to common stock	<u>\$ 1,868</u>	<u>\$ (286)</u>	<u>\$ (5,698)</u>	<u>\$ 5,178</u>	<u>\$ 2,816</u>
Net income (loss) per common share					
Primary					
Continuing operations	\$.68	\$ (.10)	\$ (1.79)	\$ 2.23	\$.94
Net income (loss) .....	.68	(.10)	(2.05)	1.66	.95
Fully diluted					
Continuing operations .....	.65	(.10)	(1.79)	2.03	.88
Net income (loss) .....	.65	(.10)	(2.05)	1.52	.89
Weighted average common shares outstanding					
Primary	3,303	2,781	2,785	3,360	3,365
Fully diluted	3,675	2,781	2,785	3,776	3,793

(A) During 1974, the Company changed its fiscal year-end to December 31 to conform to the year-end of its parent. December 1973 operating results of \$279,000, net of taxes of \$47,000, have been credited directly to retained earnings.

(B) See Note 3 to Notes to Consolidated Financial Statements with respect to the adoption of the LIFO method of inventory valuation in 1977.

(C) The loss in 1975 includes a \$1,178,000 provision for losses incurred in a plant shut-down and a \$729,000 loss resulting from write downs of investments in and advances to various foreign joint ventures. The unusual income in 1974 and 1973 resulted from sales of marketable securities.

(D) Discontinued operations principally reflect the losses on sales of the Company's food service equipment and aerospace components manufacturing businesses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Year 1977 vs. 1976:

Net sales increased 28% primarily due to continued, improved conditions in the LP-gas market and new sales programs. This resulted in increased prices, unit volume and better sales mix.

Gross profit as a percentage of sales increased from 19% in 1976 (after \$1,395,000 for inventory valuation provision) to 27% in 1977 (after \$1,681,000 provision for change to LIFO inventory valuation). This increase relates to increased selling prices, better sales mix to higher margin LP-gas products and improved utilization of production facilities at higher activity levels.

Selling and administrative expenses increased 6% mainly due to increased marketing costs related to higher sales volumes.

Interest expense decreased \$22,000 as a result of the decrease in long-term debt. Other income increased \$348,000 mainly due to increased interest and royalty income in 1977 and the loss on sale of mining stocks and related assets in 1976.

Net income increase of \$2,150,000 can be attributed primarily to improved market conditions in LP-gas, new sales programs, better pricing and increased utilization of production facilities with control over costs related to increased volumes.

Year 1976 vs. 1975:

Net sales increased 25% due principally to a revival of the LP-gas market from its depressed condition in 1975. This provided the basis for price increases, increased unit sales volume and better sales mix.

Gross profit increased as a percentage of sales from 10% in 1975 to 19% in 1976. This increase relates to increased selling prices and better sales mix to higher margin LP-gas equipment.

Selling and administrative expenses increased 7% due principally to increased selling expenses, product liability insurance expense and the addition of the management fee from its parent (Marmon) offset by decreased outside professional services including legal and data processing.

Interest expense decreased by \$114,000 in 1976 as a result of the decrease in long-term debt. 1975 also included \$60,000 of interest related to a bank note repaid in January 1975.

Other income increased \$446,000 principally due to the charge in 1975 of \$538,000 to write down mining stock investments to estimated realizable values.

Net income increase of \$5,410,000 is due to improved operational results in 1976 over 1975 discussed above, and the absence in 1976 of unusual losses incurred in a plant shut-down, write down of foreign joint ventures and discontinued operations.

Fourth Quarter Results:

Comparison of results for the quarters ended December 31, 1977 vs. September 30, 1977

Sales—Increased \$1,068,000 or 13%.

The sales increase reflects the seasonal pattern following plant and customer vacation shut-downs and reduced business activity in the third quarter.

Net Income—Increased \$225,000 or 47%.

Increased sales activity allowed better utilization of production facilities and absorption of fixed elements of cost.

Comparison of results for the quarters ended December 31, 1977 vs. December 31, 1976

Sales—Increased \$1,196,000 or 15%.

The effect of improved market conditions in the LP-gas industry with resultant improved pricing and higher unit sales was the primary cause of the higher sales.

Net income—Increased \$439,000 or 166%.

Improved pricing, better sales mix and fuller utilization of facilities all contributed to the improved earnings. Cost levels were controlled in relation to the increased volumes. The net income for the fourth quarter of 1976 was reduced \$228,000 for significant year end adjustments. These adjustments consisted of an inventory valuation provision, product liability losses, loss on sale of a product line and additional health and accident expenses. No similar items were present in 1977.